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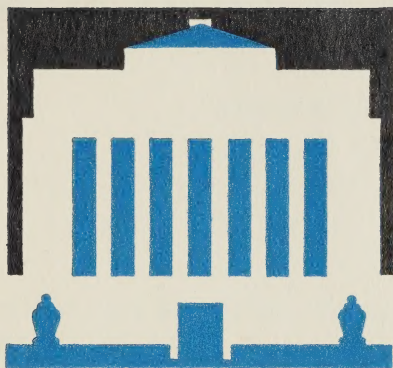
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BANK OF CANADA



**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1963

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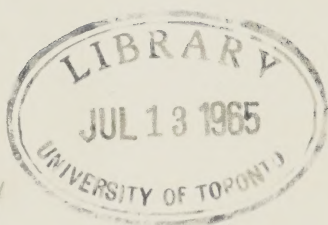
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BANK OF CANADA *Ottawa 4*

February 29th, 1964.

The Hon. Walter L. Gordon, P.C.,
Minister of Finance,
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions
of the Bank of Canada Act I am transmitting
herewith my report for the year 1963 and
a statement of the Bank's accounts for this
period which is signed and certified in the
manner prescribed in the by-laws of the Bank.

Yours very truly,

H. Kasminsky

Governor

BANK OF CANADA

Report of the Governor - 1963

During 1963 the operations of the Bank of Canada were directed towards encouraging credit conditions and an external financial position which would help to sustain and strengthen the expansion of the Canadian economy. The critical foreign exchange situation which emerged in the early summer of 1962 had threatened that expansion, and emergency measures, including sharply tighter credit conditions, had been introduced to remove the threat. By September 1962 confidence in Canada's foreign exchange position had been sufficiently restored to permit monetary policy to move rapidly back again in the direction of ease, and the movement towards ease continued through the first half of 1963. The summer months were marked by fresh uncertainties about our foreign exchange position but these were relieved by the large sales of wheat and flour to the Soviet Union arranged in September, and for the remainder of the year the Bank was able to frame its policies on the basis of a firm foreign exchange position.

At the beginning of 1963 the pace at which the Bank felt it could move in encouraging easier credit conditions was influenced by the views it was able to form about the size and reliability of capital inflows into Canada. The reason for this was that Canada was running a large deficit in its balance of international payments on current account and a substantial inflow of capital was needed to provide the means of payment to cover this deficit. In the event, long-term capital inflows developed strongly in the early months of 1963, and even though the current account balance is seasonally weak in the winter months Canada's foreign exchange reserves did not fall. Moreover, it was known that appreciable amounts of long-term capital from abroad were being arranged by Canadian borrowers for later delivery, and these would be available to help cover the prospective current account deficit through much of the rest of the year. In these circumstances some further easing of credit conditions seemed appropriate, and this view was indicated by the reduction of Bank Rate from 4 per cent to 3½ per cent on May 6, 1963. By this time interest rates in Canada had fallen to a level which appeared to give little interest-rate incentive for further inflows of capital from the United States.

From early May until July there was little change in credit conditions. Early in July, however, short-term interest rates in the United States came under upward pressure and an early increase in the Federal Reserve Banks' discount rate was anticipated by the market. The Canadian market tended to move sympathetically. On July 16 the expected U.S. discount rate increase from 3 per cent to 3½ per cent was announced. Then on July 18 the Administration announced its proposal that foreign longer-term borrowing should be subject to an interest equalization tax which would add about one per cent per year to the total costs of the borrower.

As soon as this news broke a wave of uncertainty and apprehension swept through Canadian financial markets. Despite the considerable and welcome reduction that had taken place in our international payments deficit on current account from the very high levels of the late 1950's, the deficit was still running at a substantial annual rate, and market opinion recognized that it could no longer be taken for granted that the deficit would be matched by an inflow of capital. It was clear that Canadian borrowers were not able to obtain capital in sufficient quantities to cover the deficit from capital markets other than the United States, and an inflow from the United States could be expected only if interest rates in Canada rose sufficiently to offset the proposed United States tax. The proposed tax thus raised the imminent prospect of either a dramatic rise in the whole structure of interest rates in Canada, or another foreign exchange crisis, or both. On July 18 and 19 the official foreign exchange reserves suffered heavy losses and the securities market became disorganized with bond prices being marked down sharply.

Even though it had been recognized that the United States might wish to take some further action to improve its balance of payments position the interest equalization tax came as a surprise in Canada. Subsequent to the delivery on January 3, 1963 of the second half of the proceeds of the October 1962 borrowing by the Government of Canada in the New York capital market, the inflows of capital into Canada in 1963 had been no more than sufficient to maintain the level of Canada's foreign exchange reserves. With the progressive narrowing of interest-rate spreads, contracts entered into by Canadians for the sale of new issues of securities to residents of the United States had fallen very sharply in the second quarter of 1963—to \$130 million from an average of \$425 million in the preceding three quarters. Since we were running an over-all balance of payments surplus with countries other than the United States in the first half of 1963 and since our total exchange reserves were not rising, it was clear that we were using the surplus with countries other than the United States to finance the over-all payments surplus that the United States was running with Canada. In

short, during the first half of 1963 the sum-total of transactions between Canada and the United States was contributing strength to the over-all payments position of the United States: this was in line with the general experience of earlier years which I outlined in my Annual Report of last year.

The situation clearly called for urgent consultations. These took place during the week-end and on July 21, 1963 the following agreed statement was issued:

“Representatives of Canada and the United States met during the week-end to appraise the impact on the Canadian financial markets of the proposed United States “interest equalization tax”.

The two governments recognized the need for effective action to improve the balance of payments position of both countries and are both equally determined that such action shall not impair the intimate economic relationships between the two countries, nor impede the growth essential for both economies.

For many years the capital markets of the two countries have been closely interconnected, and United States exports of capital to Canada have financed a substantial portion of the Canadian current account deficit with the U.S. This need continues. A portion of these flows must be supplied through the sale of new issues of Canadian securities in American markets. U.S. officials had considered that ample flows for these needs would continue under the proposed “interest equalization tax”. However, Canadian representatives stated that this would require a very substantial rise in the entire Canadian interest rate structure. It was recognized by both governments that such a development would be undesirable in present economic circumstances.

In the light of this situation U.S. officials agreed that the draft legislation to be submitted to the Congress would include a provision authorizing a procedure under which the President could modify the application of the tax by the establishment from time to time of exemptions, which he could make either unlimited or limited in amount. The President would thus have the flexibility to permit tax free purchases of new issues needed to maintain the unimpeded flow of trade and payments between the two countries, and to take care of exceptional situations that might arise in the case of other countries. U.S. officials made clear that this did not modify their proposals regarding the taxation of transactions in outstanding securities; over the past year such transactions between Canada and the U.S. have not been a major factor.

The Canadian authorities stated that it would not be the desire or intention of Canada to increase her foreign exchange reserves through the proceeds of borrowings in the United States, and it is the hope and expectation of both governments that by maintaining close consultation it will prove possible in practice to have an unlimited exemption for Canada without adverse effect on the United States.

It was agreed that active consultations would continue to strengthen the close economic relations between the two countries and at the same time facilitate measures for making the maximum practicable contributions to economic expansion and the strength and stability of both currencies."

This announcement served to relieve the pressure on Canadian financial markets very considerably. However, it soon became evident that, because of uncertainty as to the amount of tax liability to which they might be exposed, United States investors would not be willing to buy new issues of Canadian securities in significant volume until the legislation was passed and the exemption implemented. Fears also grew that a substantial net outflow of capital from Canada might develop from the trade in outstanding Canadian securities for which no exemption from the tax was to be provided in the proposed legislation. In the circumstances, downward pressure on the prices of Government securities developed in the Canadian market. The Bank of Canada resisted this pressure by buying long-term bonds but uncertainty about the viability of the situation increased and resulted in a marked slowing-down in the flow of funds from private investors to borrowers in the capital market. On August 11 the Bank of Canada, recognizing the situation that had developed in securities markets, raised its Bank Rate to 4 per cent and explained that this change did not signal a basic alteration in monetary policy. In the next four weeks market yields in Canada reached a somewhat uneasy stability at rates about $\frac{1}{2}$ per cent higher for treasury bills and about $\frac{1}{4}$ per cent higher for long-term Government bonds than had prevailed through the late spring months.

The announcement in mid-September of exceptionally large export sales of wheat and flour to the Soviet Union dispelled immediate concern about the possibility of renewed foreign exchange difficulties for Canada and led to a marked strengthening of prices and a decline in yields in the market for Government securities. In the closing months of the year interest yields again moved moderately higher in Canada concurrently with a similar movement in the United States market. The yield spread between United States and Canadian treasury bills continued to be relatively narrow and to provide no significant inducement for short-term capital flows in either direction. With the proposed interest equaliza-

tion tax still before Congress the United States long-term market was for all practical purposes closed to Canadian borrowers. However, as a result in part of cash payments received for the large wheat sales to the Soviet Union, our exchange reserves remained quite steady during the rest of the year.

Broadly speaking, interest rates and credit availability were about the same in Canada at the end of 1963 as they had been at the beginning of the year. As interest rates in the United States moved moderately upwards through the course of the year the interest-rate differentials between Canada and the United States narrowed appreciably. The orientation of our monetary policy in 1963 helped to prevent the credit demands associated with the continuing growth in economic activity from giving rise to an inappropriate tightening of credit conditions. The policy was reflected in a substantial growth in chartered bank assets and in the money supply. Chartered bank assets rose by 9½ per cent in 1963, allowing the banks to accommodate a strong demand for loans, particularly in the second half of the year, while at the same time increasing their liquidity. There was, of course, a matching increase in chartered bank deposits. A considerable part of the increase in bank deposits was held by the Government of Canada; the increase in the holdings of currency and bank deposits by the general public was 6½ per cent. Over the two years 1962 and 1963 the average rate of increase in total currency and chartered bank deposits was about 6 per cent per year, and the increase in the general public's holdings of currency and bank deposits was about 5 per cent per year.

* * *

The over-all performance of the Canadian economy in 1963 was encouraging. Substantial increases in output and employment were achieved for a third consecutive year, and the amount of slack in the economy was reduced. The volume of output in 1963 was about 4 per cent higher than in 1962. Production on farms was particularly high, with a record wheat crop of 723 million bushels, about 50 per cent above the average crop of the previous ten years, but output other than on farms also rose by nearly 4 per cent. The rise in non-farm output in 1963 was associated with a relatively small increase in output per worker and a relatively large increase in employment. Even though the labour force grew somewhat more rapidly than in recent years, average unemployment fell from a little below 6 per cent of the labour force in the late months of 1962 to a little above 5 per cent in the late months of 1963. Further gains were made by Canadian manufactured goods in 1963 both in export markets and in competition with imports in the Canadian market, and these contributed to a relatively rapid growth in manufacturing production which has been a notable and welcome

feature of the current phase of expansion in Canada; output in manufacturing was nearly 6 per cent higher in 1963 than 1962. The current account deficit in the balance of international payments fell from about \$850 million in 1962 to about \$520 million in 1963. More than half of this improvement can be attributed to the unusual wheat and flour sales to the Soviet Union; if one excludes exports arising from these sales and allows for normal seasonal movements the current account deficit seems to have been higher in the second half of the year than in the first half.

One development that has contributed a great deal to the Canadian economy's performance in recent years has been the improvement in Canada's international competitive position. This was greatly strengthened by the decline in the foreign exchange value of the Canadian dollar in 1960-62, and as Canadian prices and costs have risen only modestly since, this advantage has been largely retained. The trend of prices and costs in Canada in Canadian dollars in the last few years has in fact been remarkably similar to that in the United States in U.S. dollars. At the same time the competitive position of a number of important trading countries, notably the countries of Western Europe, has been weakened by the strong upward pressure on costs and prices that they have been experiencing.

The improvement in our competitive position has helped us to achieve a reduction in our deficit on international current account and there is no doubt in my mind that the contraction of this deficit, from a peak level of \$1,500 million in 1959 to \$520 million in 1963, has made a significant contribution towards a stronger and more stable pattern of Canadian growth. Our economy continues of course to be a very "open" one; it continues to have substantial gross exports and imports of goods and services and substantial capital flows which expose it to the ebbs and flows of activity and change in the world outside. This is a fact of life for us, and I do not believe that Canadians would wish to insulate themselves from the world economy even if they could. This being the case, there must be continual adjustment between the Canadian economy and the outside world, and Canadian economic policy must be constantly responsive to economic and financial developments abroad. At the same time, however, I believe that we shall be better able to adjust satisfactorily to outside developments if we continue to make progress in reducing our current account deficit. Our experience in 1963 with the interest equalization tax highlighted in dramatic fashion the vulnerability that results from dependence upon large net inflows of capital to balance the country's international accounts.

A development that would make it more difficult for us to continue to reduce our current account deficit would be a reversion to the historical tendency for

imports into Canada to rise more rapidly than output during periods of economic expansion, and there have been some recent signs that this may be happening. The relatively strong competitive position we are now in should, however, help us to contain such a development. Moreover, it seems to me that in a world environment as favourable to Canada as we are now enjoying—with the United States officially forecasting an acceleration in its rate of economic expansion in 1964, with demand pressures in Europe remaining strong, and with ready markets for our wheat—we can reasonably continue to aim at achieving a further increase in exports that would more than match any further increase that may occur in our imports.

The success of the Canadian economy in achieving sustained and balanced growth in the years ahead and in continuing to reduce its current account deficit will depend to an important measure on its response, in terms of prices and costs, to further increases in demand. The existence of large amounts of unused resources has undoubtedly contributed to the relative stability of costs and prices during the past three years of economic expansion. Some of the aggregative measures of economic slack, for example the number of persons recorded by the Labour Force Survey as being without jobs and seeking work, suggest that there is still substantial slack in the economy, but as the table on page 26 of this Report shows, the geographical distribution of unemployment is very uneven, and it is known that the availability on the labour market of many types of skills which are in demand is limited and patchy. Surplus plant capacity also seems to be quite unevenly distributed industrially and geographically. The special characteristics as well as the aggregate amount of the slack in the economy must of course be taken into account in the continued efforts of the public authorities to follow policies which will facilitate the absorption of slack without generating price increases and a deterioration in our balance of payments.

* * *

In concluding these general observations I wish to revert briefly to external matters. No country which forms part of the world trading community can escape from the need to accommodate to the continuous changes that take place in its economic relationships with the outside world. The amount of stress and strain that is felt in adjusting to such changes depends, however, to some extent on the adequacy of the arrangements governing international liquidity: this liquidity serves as a shock-absorber which, by providing the means of financing temporary international deficits, gives countries time to make such underlying adjustments as may be necessary. Because of the unusual openness to the outside world of our economy, we in this country are specially interested in inter-

national liquidity arrangements, and Canada has on occasion taken and has always supported initiatives in the direction of broadening and strengthening these arrangements. I join with others in welcoming the discussion of these matters that is currently under way in the International Monetary Fund and by the deputies of the Ministers of Finance and Central Bank Governors of the ten countries (including Canada) who in 1962 brought into effect a special arrangement to supplement the resources of the Fund.

The world monetary system relies heavily upon the use of the U.S. dollar and sterling as supplements and alternatives to gold in national reserves of liquidity. For many generations sterling was the world's principal reserve currency; in more recent years the United States dollar has come to play the major role. On the whole the reserve currency system has worked well, though it has on occasion shown some signs of strain. In the immediate post-war years the main problem seemed to be the large accumulations of convertible sterling balances and what was thought of as a "chronic shortage" of United States dollars, but in the late 1950's and the 1960's the United States incurred large over-all balance of payments deficits and this greatly increased the supply of U.S. dollars to the rest of the world. The United States is aiming at greatly reducing the deficit in its international payments, and a purpose of the studies being undertaken under the international auspices I have mentioned is to examine what international reserve-holding and credit arrangements seem most likely to accommodate the world's growing needs for liquidity as the United States balance of payments strengthens in the years ahead.

The International Monetary Fund has been the principal organization for international co-operation in the international payments field, and it has done much to develop an internationally accepted structure of obligations and practices in respect of foreign exchange rates, exchange restrictions, and the financing of and adjustment to balance of payments deficits. There are various ways in which Fund arrangements might be changed to give additional support and flexibility to the international monetary system, and it will be useful to have them reviewed at this time.

A number of other international arrangements have contributed strength to the international monetary system in recent years. Discussions and studies carried out under the auspices of the Organization for Economic Cooperation and Development and the Bank for International Settlements have shed light upon the nature of current developments in international payments and of the effects of national policy reactions to these developments. This improvement in understanding has in turn increased the opportunities for constructive co-opera-

tion of other kinds. It has, for example, facilitated the development of the existing structure of inter-central bank stand-by credits. At the present time the system of such reciprocal credits arranged between the United States Federal Reserve System and other central banks totals over 2 billion U.S. dollars, including \$250 million with the Bank of Canada. The value of these reciprocal central bank credits in dealing with speculative international capital flows has been convincingly demonstrated on several occasions in recent years, the most recent being the tragic assassination of President Kennedy last November. At that time the Federal Reserve acted quickly to reduce the risk of disorder by drawing various currencies, including Canadian dollars, under its credit arrangements with central banks and selling these currencies against U.S. dollars in the New York market. The uneasiness about the U.S. dollar in foreign exchange markets soon disappeared, and the drawing on the Bank of Canada was fully repaid in mid-December.

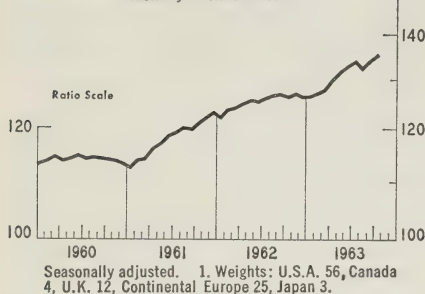
The institutional arrangements governing international liquidity have been greatly improved in recent years and further constructive developments in this field are to be welcomed. But sight should not be lost of the fact that the purpose of international liquidity is to give time for the processes of balance of payments adjustment to be carried out in an orderly way, and not to replace them. Provision of international liquidity on a scale which would facilitate the postponement of necessary adjustments would be detrimental to the interests of all countries. In the final analysis the quality of performance that we get from the international economic system will depend upon the quality of national economic policies, upon the flexibility and efficiency of national economies and the readiness and skill of national authorities in responding constructively to changes in their external economic situations.

The External Economic Environment

1963 was a year of accelerated expansion in the world economy. Industrial production in the non-communist countries had risen more slowly in the latter

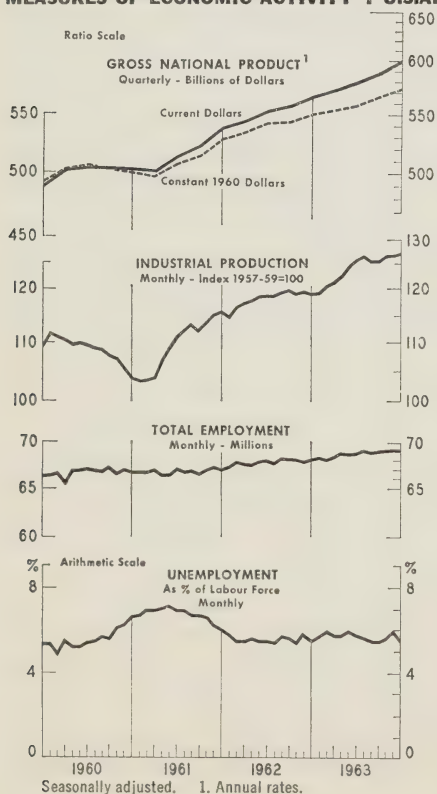
INDUSTRIAL PRODUCTION : 17 COUNTRIES

Monthly — Index 1957=100



part of 1962 than in 1961, and at the beginning of 1963 it seemed possible that the pace of growth would continue to slacken. In fact, however, the rate of expansion stepped up in the early months of 1963 and this higher rate was generally sustained through the balance of the year.

MEASURES OF ECONOMIC ACTIVITY : U.S.A.



In the United States, in particular, the expansion in 1963 was more rapid than had been generally expected at the beginning of the year. Gross national product rose to \$585 billion for the year as a whole, an increase over 1962 of 5.4 per cent in value and 3.8 per cent in volume. Measured from the fourth quarter of 1962 to the fourth quarter of 1963 the increase in volume was 4.2 per cent. Consumer expenditures continued to be a major source of strength, business fixed investment resumed its advance after a first quarter dip, and residential construction was also strong. Outlays for goods and services by all levels of government expanded at about the same rate as in 1962 and there was an improvement in the export balance of goods and services. The growth in business inventories was relatively steady throughout the year and the relationship of inventories to sales did not change significantly. Employment in-

creased by 1½ per cent during the year, but the civilian labour force grew at about the same pace, and the December unemployment rate of 5½ per cent (seasonally adjusted) was unchanged from a year before. The increase of over 4 per cent in output, taken in conjunction with the rise of 1½ per cent in employment in the course of the year, indicates a very considerable increase in output per worker.

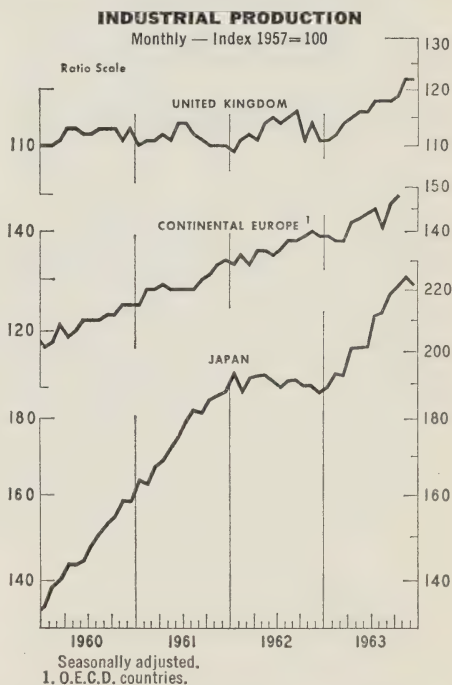
In the United Kingdom, where production had fallen in the last months of 1962, demand rose strongly in 1963. Consumer and government expenditure and exports were the main factors in the expansion, though by year-end there was some evidence of a reversal of the two-year decline in private fixed investment as well. Unemployment fell from a level which at the beginning of the year had been appreciably above the post-war average.

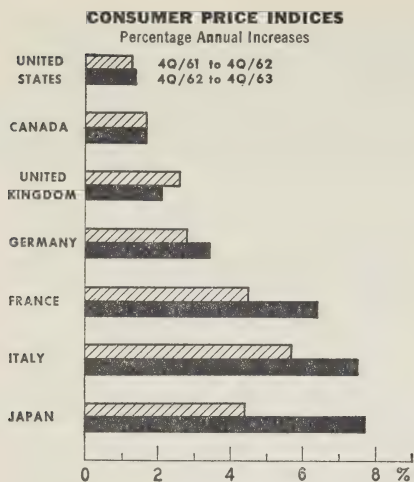
Continental Europe experienced another year of economic growth. Rising consumer demand was the principal expansionary force in France and Italy, while in Germany the main stimulus came from large increases in exports. Throughout Europe public investment outlays continued to increase, and although private investment had tended to flatten out, there were some indications that it was strengthening by year-end.

Employment rose faster than the labour force, and this placed increased strains on labour markets already short of skilled industrial workers.

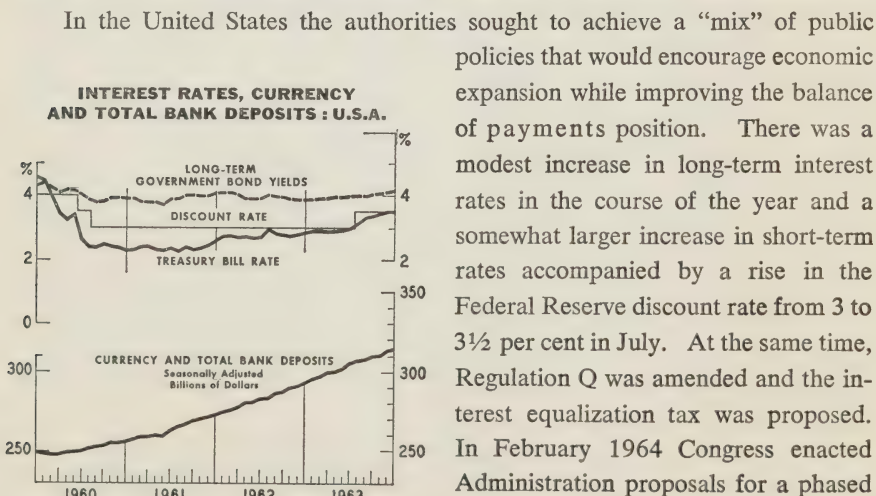
In Japan, the pause in economic growth which followed the restrictive measures imposed at the end of 1961 to cope with the deterioration in the balance of payments came to an end early in 1963, and the economy resumed a strongly expansionary course.

These trends of output and employment in the industrial countries were accompanied by important differences in the behaviour of costs and prices. In





tion, by restraining the growth of public expenditures, especially capital expenditures in overstrained sectors of the economy, and in at least two cases by increasing taxes. In some countries attempts were made through an "incomes policy" to control an excessively rapid rise in money incomes. In others, import duties were reduced and price controls and tax rebates were introduced in an effort to check domestic price increases. In 1963 and in January 1964 central bank rediscount rates were raised in Sweden, Belgium, France and the Netherlands. Late in February 1964 the Bank Rate in the United Kingdom was increased.



the United States, price increases were moderate. In many overseas industrial countries, however, the situation was different and substantial increases in costs and prices occurred in France, Italy and Japan.

A number of countries were thus once more confronted with the problems posed by strongly rising costs and prices, and public policy increasingly reflected efforts on the part of the authorities to contain the developing pressures. Several countries attempted to improve the budgetary balance by speeding up the process of tax collection

In the United States the authorities sought to achieve a "mix" of public policies that would encourage economic expansion while improving the balance of payments position. There was a modest increase in long-term interest rates in the course of the year and a somewhat larger increase in short-term rates accompanied by a rise in the Federal Reserve discount rate from 3 to 3½ per cent in July. At the same time, Regulation Q was amended and the interest equalization tax was proposed. In February 1964 Congress enacted Administration proposals for a phased

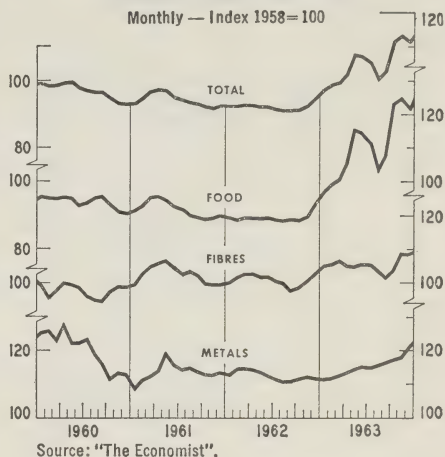
reduction in personal and corporate income taxes of about \$7½ billion in 1964 and a further \$4 billion when fully effective in 1965. The budgetary estimates for the next fiscal year call for a slight reduction in Federal Government outlays.

World prices of primary commodities strengthened decidedly in 1963, reversing a downward drift which had lasted for some years. As the inset chart shows, the strongest upward thrust occurred in foodstuffs. Sugar tripled in price and moderate increases occurred in wheat, cocoa and coffee. The major influences pushing up the prices of primary foods appear to have come from the supply side; on the other hand the rise in the price of base metals and wool appears to have been mainly due to the increase in demand resulting from economic expansion in the industrial countries.

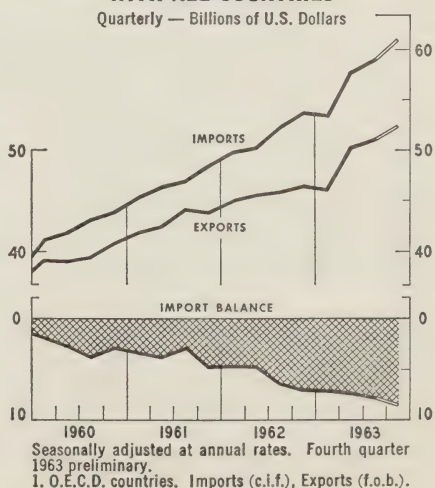
World trade continued to grow in 1963 and the patterns continued to change in ways which suggest that a significant influence was exerted by the relative cost and price movements already described. The trade balances of a number of European countries including France and Italy deteriorated. Their imports from Germany rose markedly and that country reverted to a strong foreign surplus position. The trade balance of Europe as a whole became more unfavourable in 1963, continuing the trend of recent years. While the United Kingdom's exports to European countries rose appreciably in 1963, there was some deterioration in her over-all trade balance in the latter part of the year. The trade position of the United States showed some modest improvement in the course of 1963.

The Soviet Bloc appears to have improved its trade position with Western countries between 1961 and the third quarter of 1963 due in part to

PRICES OF INTERNATIONALLY TRADED COMMODITIES



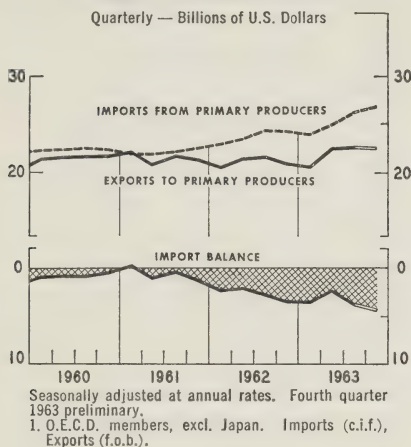
TRADE OF CONTINENTAL EUROPE¹ WITH ALL COUNTRIES



Soviet oil sales to Europe. This trend was reversed in the fourth quarter by Russian and Eastern European wheat purchases. The sales of Russian gold to pay for wheat added significantly to the gold reserves of the Western world.

Both North America and Europe continued to increase their purchases from primary producing countries in 1963 and the total value of these imports was

TRADE OF INDUSTRIAL COUNTRIES¹ WITH PRIMARY PRODUCING COUNTRIES



raised by the upward movement in primary commodity prices to which reference has been made. The primary producers responded to the improvement in their external position by increasing their purchases from the industrial countries but these did not rise as rapidly as their sales. Over the past three years the primary producing countries' purchases from North America have risen more rapidly than from Europe. The counterpart of the improvement in the over-all trade balance of the primary producing countries thus appears to have been the deterioration in the trade position of Europe.

The following table summarizes the broad changes which have occurred in recent years in the international reserve position of main geographic areas.

CHANGES IN INTERNATIONAL RESERVE POSITIONS⁽¹⁾

(billions of U.S. dollars)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
United States.....	-3.9	-2.4	-2.2	-2.6
Canada.....	-	0.3	0.1	0.1
United Kingdom.....	0.9	-1.0	0.5	-0.1
Continental Europe.....	4.2	3.2	1.0	2.2 ⁽²⁾
Japan.....	0.5	-0.3	0.4	-
Other Countries ⁽³⁾	-0.4	-0.6	0.1	1.1 ⁽⁴⁾

(1) For the United States, the over-all deficit in the balance of payments (defined as the change in official holdings of gold and convertible currencies, and in liquid liabilities to foreigners). For all other countries, changes in official reserves adjusted for I.M.F. transactions.

(2) Preliminary.

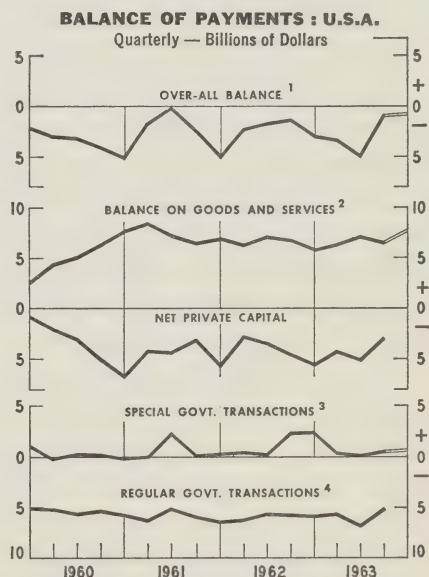
(3) Excluding Soviet Bloc and Mainland China.

(4) Change from December 1962 - September 1963.

As conventionally measured by the change in United States' holdings of gold and convertible currencies and in liquid liabilities to foreigners, the deficit in the United States balance of payments amounted to \$2.6 billion in 1963 compared to \$2.2 billion in 1962. The increase in the deficit thus defined is, however, more than accounted for by a decline in United States receipts from special government transactions, and the United States payment deficit on regular transactions fell from \$3.6 billion in 1962 to \$3.0 billion in 1963. It is worth recalling that the United States continues to export more goods and services than she imports: in 1963 she had a favourable balance on goods and services account of about \$7.0 billion, compared to \$6.4 billion in 1962.

The deficit in the over-all payments position of the United States was affected by abnormal factors in both the first half and second half of 1963. It was considerably lower in the second half of the year because of a larger surplus on goods and services account, a reduction in net government payments, and a sharp decline in private capital outflows. The announcement in July of the proposed interest equalization tax, and the uncertainties regarding its final disposition by Congress, contributed to the reduced outflow of long-term capital after mid-year. At the same time further steps were taken to discourage the outflow of short-term funds; as noted above the Federal Reserve discount rate was raised and Regulation Q was amended to permit the payment of higher interest rates by commercial banks on time deposits.

The marked increase in the reserves of "other countries" shown in the table on the facing page reflects the improved payments position of primary producing countries resulting in part from the trade developments referred to and in part from increased receipts of foreign aid. The reserves of most of these countries were very low at the beginning of 1963. The need of the underdeveloped countries for goods and services from abroad, notably capital goods, is so great that



Seasonally adjusted at annual rates. Fourth quarter 1963 preliminary.

1. Includes special transactions in note 3.

2. Excludes military expenditures and transactions abroad.

3. Non-scheduled receipts on Government loans, advances on military exports and sales of non-marketable, medium-term non-convertible securities to foreign monetary authorities.

4. Grants and capital outflow less scheduled loan repayments, plus net military expenditure abroad.

increases in their export earnings are likely to be quickly matched by increases in their imports.

The principal gainers of international reserves in 1963 were once again Continental European countries. Their reserves, as the table shows, increased more in 1963 than in 1962 though not so much as in the preceding two years. This further increase in Europe's reserves is the more noteworthy as it occurred in the face of a considerable deterioration in her trade and current account balance. Inflows of capital led to renewed growth in German reserves, which again reached the \$7 billion level, and to continued growth in French reserves, which reached \$4½ billion. In Italy, a very substantial volume of commercial bank borrowing abroad postponed until late in the year any reserve loss consequent upon the deterioration in the balance of international payments.

Any tendencies during 1963 for international short-term capital flows to create critical disturbances were contained by the authorities without excessive difficulty. It is becoming increasingly apparent that co-operation among central banks with respect to short-term reciprocal credit arrangements and gold operations has added to the stability of the international payments system. In 1963 political shocks such as the failure of the United Kingdom to negotiate access to the European Common Market and the assassination of President Kennedy led to immediate co-operative action which served as a deterrent to major or protracted speculative movements of funds.

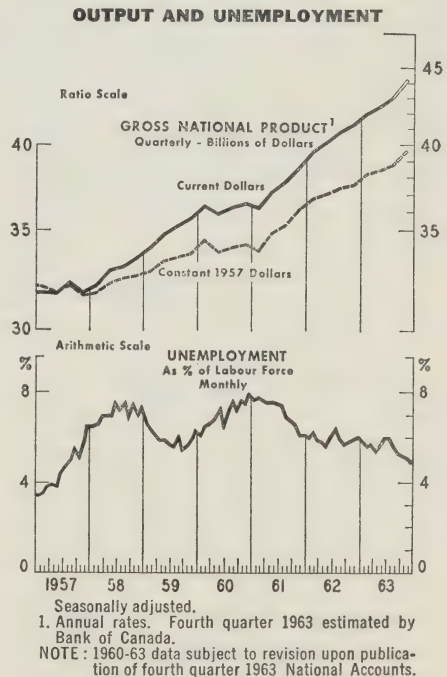
As regards long-term international capital flows, there has as yet been only a partial adaptation to the new situation created by the marked change that has taken place in the payments position of different countries over the last several years. The most highly developed institutional framework for the sale and distribution of foreign securities is to be found in the United States, which has however been seeking to reduce her capital exports and her over-all payments deficit, and in the United Kingdom, whose capacity to export capital has been limited by her modest current account surplus and reserve position. On the other hand, the countries of Western Europe which have for one reason or another been in a strong payments position have not been commensurately large sources of private long-term capital for other countries. There thus remain some unresolved problems in connection with the international flows of private long-term capital. Against this background it is of interest to observe some evidence of the adaptation of institutional arrangements to the changed international payments position. Thus, in 1963 a number of foreign borrowers were able to raise capital in European markets and in London by issues denominated in U.S. dollars or other foreign currencies and sold to investors in several countries.

Economic Developments in Canada

The expansion of the Canadian economy continued in 1963, marking the third year of advance from the cyclical low point of early 1961. The gross national product for 1963 as a whole was 6 per cent higher in value and 4 per cent higher in volume than in 1962. Average output per person employed in the non-farm sector of the economy increased by approximately one per cent, somewhat less than in 1962. Total employment rose strongly enough to absorb an accelerated growth in the labour supply and to reduce further the level of unemployment. By the fourth quarter of the year unemployment, seasonally adjusted, had dropped to 5.1 per cent of the labour force—the lowest quarterly rate since the middle of 1957. This improvement was widely spread across the country, although marked disparities in unemployment rates remain among age-groups and among regions. By comparison with most important overseas industrial

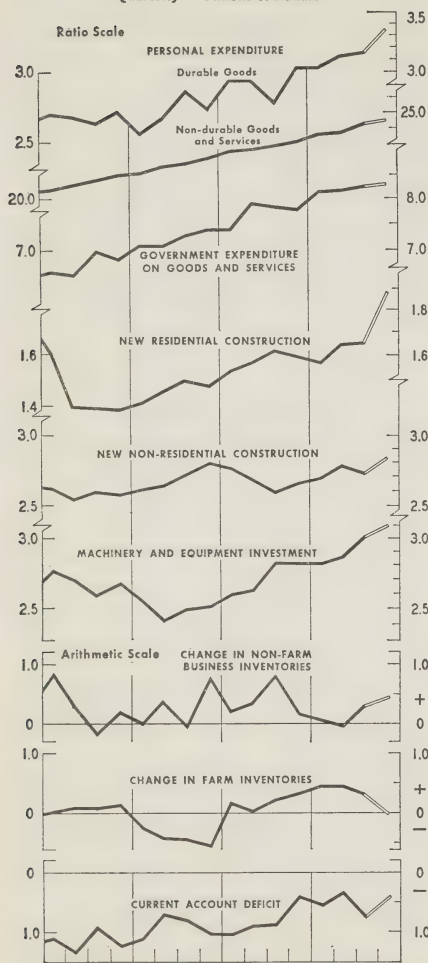
countries, increases in wage rates and prices were moderate in 1963. The deficit on current account in the balance of payments was \$521 million or about \$330 million less than in 1962.

During the first three quarters of 1963, the pace of economic expansion was not very different from that which had prevailed through most of 1962. In the last quarter of the year, however, an unusual combination of demand pressures stimulated a much sharper rise in gross national product, bringing the increase between the final quarter of 1962 and the final quarter of 1963 to about 7 per



COMPONENTS OF GROSS NATIONAL EXPENDITURE

Quarterly — Billions of Dollars



Seasonally adjusted at annual rates. Fourth quarter 1963 estimated by Bank of Canada. See note to chart on page 19.

cent by value and 5 per cent by volume. The corresponding increase in expenditure over the year was fairly widely spread among the major kinds of domestic demand, with the most notable gains occurring in consumer spending (especially on automobiles), provincial and municipal government expenditure, housing construction and business outlays on new machinery and equipment. Exports of goods and services rose considerably but so did imports, and the current account deficit in the fourth quarter of 1963 was little changed from what it had been a year earlier.

The growth of domestic demand quickened slightly in the third quarter of 1963, partly because of the resumption of non-farm inventory accumulation and some pick-up in outlays on machinery and equipment; then in the fourth quarter these developments were heavily reinforced by spurts in automobile sales and housing construction, the latter influenced by special government measures to encourage winter building. The large sales of grain to the Soviet Union added further momentum to economic activity in the closing months of the year. As the exports of wheat in the fourth quarter were drawn from stocks of grain already produced, their direct contribu-

tion to gross national product was largely confined to ancillary activities associated with the movement of grain; however the combination of a record crop and assured sales had a more general stimulating effect by creating the expectation of larger farm cash income and adding to confidence in Canada's foreign exchange position.

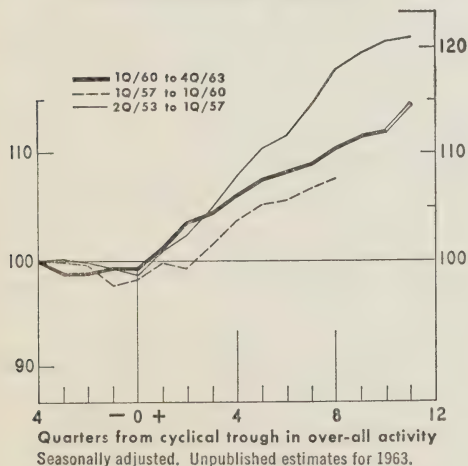
PRODUCTION. Both farm and non-farm output increased substantially in 1963. The wheat crop was a record 723 million bushels, compared with a crop of 566 million bushels in 1962 and an average of 466 million bushels over the ten years from 1953 to 1962 inclusive. The total volume of all types of farm production was approximately 7 per cent higher in 1963 than in 1962.

Non-farm output was about 4 per cent higher in 1963 than in 1962. The average annual growth in non-farm output between the business-cycle peak of early 1960 and the fourth quarter of 1963 amounted to approximately 3.7 per cent, compared with a rate of 2.5 per cent between the cyclical peaks of 1957 and 1960 and 5.2 per cent between the peaks of 1953 and 1957. A striking feature of the current expansion has been the performance of manufacturing industry whose total output since the 1960 peak has grown at an average annual rate of 4.4 per cent—much above the 1.4 per cent average rate of the 1957-60 period and more than the rate achieved between the peaks of 1953 and 1957. On the other hand, the average growth of mining and construction activity since the peak of 1960 has been considerably less than in 1953-57.

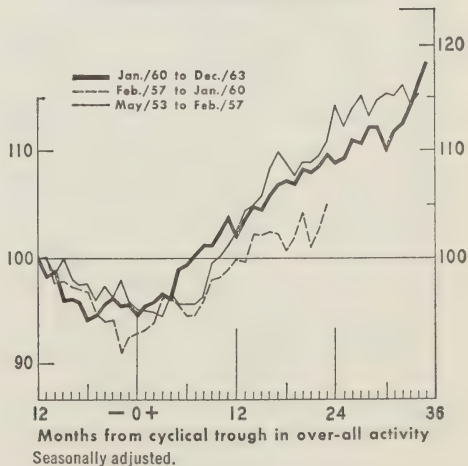
INDICES OF REAL OUTPUT

Previous Cyclical Peak in Over-all Activity = 100

TOTAL NON-FARM OUTPUT



MANUFACTURING OUTPUT



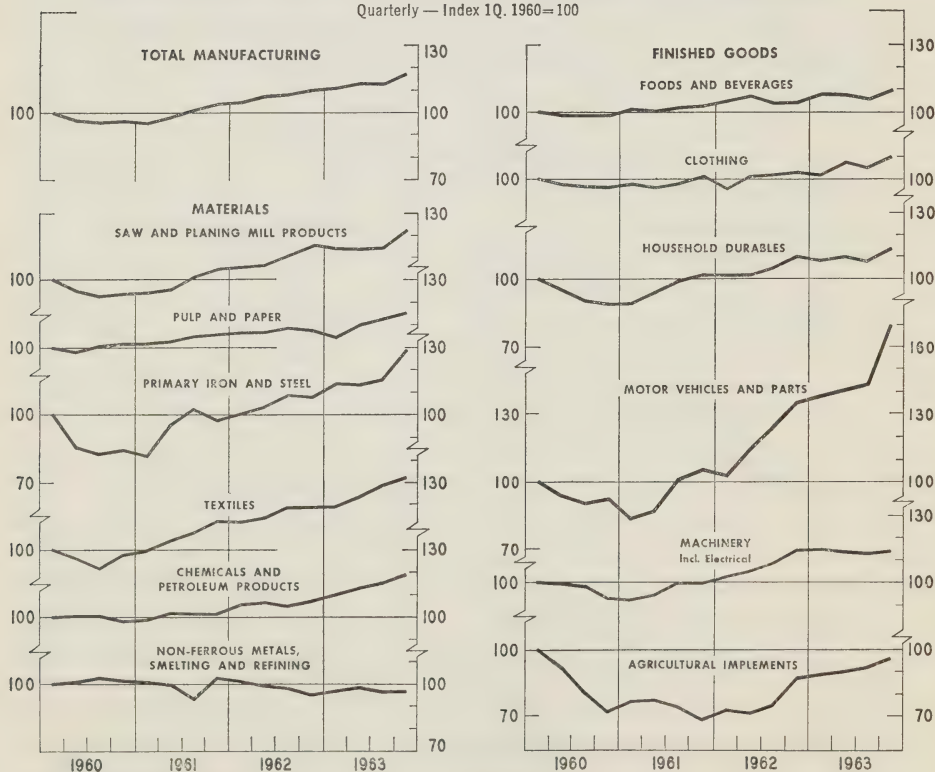
Manufacturing output rose by nearly 7 per cent between the fourth quarter of 1962 and the fourth quarter of 1963, a slightly better increase than that

achieved during 1962. Rising domestic demand was reflected in a further increase in the production of primary iron and steel, textiles, and chemicals and petroleum products. Steel ingot production in 1963 exceeded 8 million tons, representing an increase of 14 per cent from the 1962 level and involving virtually full use of the industry's capacity through the year. Among other primary industries, pulp and paper output increased moderately but there was little change in the smelting and refining of non-ferrous metals. Production in the lumber industry rose sharply in the latter part of the year, due partly to export demand and partly to the rise in domestic house-building activity.

In general, secondary manufacturing industries enjoyed a good year, which reflected both the strength of domestic demand and the improvement in their

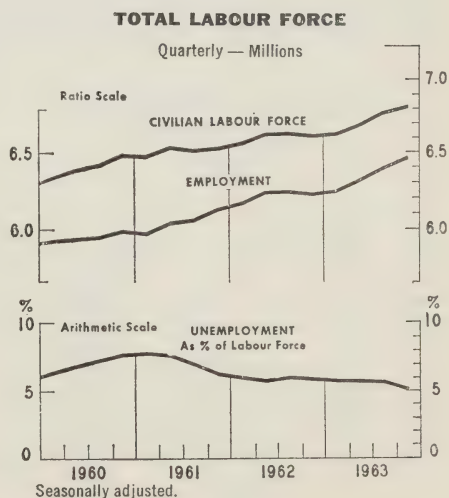
MANUFACTURING PRODUCTION : SELECTED INDUSTRIES

Quarterly — Index 1Q. 1960=100



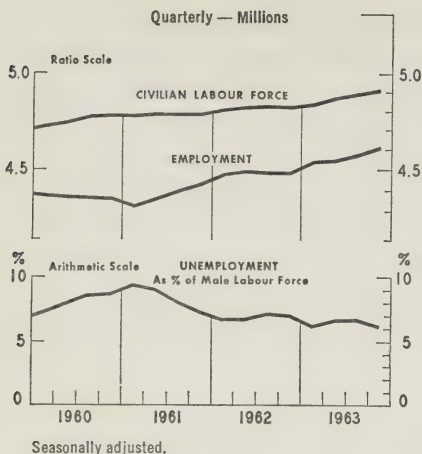
competitive position in home and foreign markets. Passenger car production in 1963 was nearly 25 per cent higher than in 1962 and established a new record. There was a particularly sharp increase in production in the automobile and related industries in the final months of the year, reflecting the continued rise in domestic sales and substantial rebuilding of dealer inventories with new model cars. Output of most other consumer goods industries grew steadily, if less spectacularly, during the year. In the capital goods industries the pattern was somewhat mixed: production of agricultural implements increased substantially, reflecting higher domestic and export sales, but non-farm machinery production was relatively stable during the year. Output of aircraft and railroad rolling stock ran below 1962 levels until some recovery occurred in the final part of the year.

EMPLOYMENT AND UNEMPLOYMENT. The continued expansion of the economy in 1963 was accompanied by a quickening in the growth of employment and a reduction in unemployment. Between the fourth quarter of 1962 and the fourth quarter of 1963, total employment increased by 248,000 persons or 4 per cent, compared with an increase of 1.6 per cent during 1962. Partly because the rising demand for labour induced more people to become active job-seekers, the total work force also increased more rapidly during 1963; the increase in the labour force over this period was 207,000 or 3.1 per cent, compared with an increase of 1.3 per cent during the previous year. The net result of these changes was that the unemployment rate (seasonally adjusted) fell from 5.9 per cent of the labour force in the fourth quarter of 1962 to 5.1 per cent in the fourth quarter of 1963.



Most of the reduction in unemployment in 1963 occurred amongst men. Between the fourth quarter of 1962 and the fourth quarter of 1963, the number of men in the labour force rose by 1.6 per cent or 79,000—appreciably more

MALE LABOUR FORCE



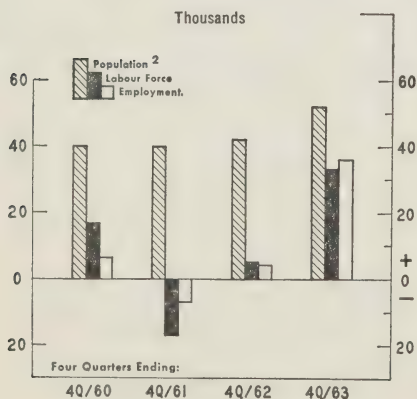
than the increase of 37,000 in 1962 and 7,000 in 1961. Male employment grew by 118,000 or 2.6 per cent during 1963, and as a result the seasonally adjusted male unemployment rate declined from about 7 per cent in the fourth quarter of 1962 to about 6 per cent in the fourth quarter of 1963.

The unemployment rate for male teen-agers also declined, but it was still roughly three times as high as the rate for men 20 years of age and over. For the first time in three years, there was a substantial increase in the number of male teen-agers remaining in the work

force after the re-opening of schools and universities in the autumn. This development, which was largely responsible for the faster growth of the total male labour force in 1963 than in 1962, probably reflected both better job

opportunities for young people and the arrival at school-leaving age of the large numbers of teen-agers born in the high-birth-rate years of 1946 and 1947.

MALE TEENAGE¹ LABOUR FORCE Changes During Year



1. Aged 14-19 years.

2. As defined for Labour Force Survey.

Total employment of women increased by 130,000 or 7.4 per cent between the fourth quarter of 1962 and the fourth quarter of 1963. This followed a period of two years from late 1960 to late 1962 during which the growth of female employment had averaged less than 3 per cent a year—a low rate by post-war standards. As has usually happened in the past, the rapid increase in job opportunities for women in 1963 quickly attracted large

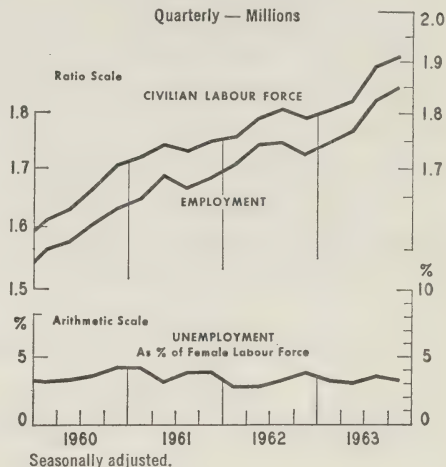
numbers of housewives and other new entrants into the labour force; there was little change in the unemployment rate for women, which remained close to 3 per

cent through the year. The female labour force grew by 127,000 or 7.0 per cent between the fourth quarter of 1962 and the fourth quarter of 1963, with married women accounting for about two-thirds of the increase. The number of teen-age girls in the labour force increased, but much less than the comparable number of male teen-agers.

About one-third of the increase in jobs during 1963 was in manufacturing industries. In terms of actual numbers, the largest gains in both male and female employment occurred in the service industries, including government. Employment in construction in the fourth quarter of 1963 averaged only slightly higher than a year earlier; the Government's incentive programme for winter house-building stimulated employment in building materials industries in the closing months of 1963, but the bulk of the employment impact on the construction industry proper apparently did not occur until early 1964. The long-term declining trend in farm employment persisted in 1963, but more workers than usual remained on prairie farms after the large harvest.

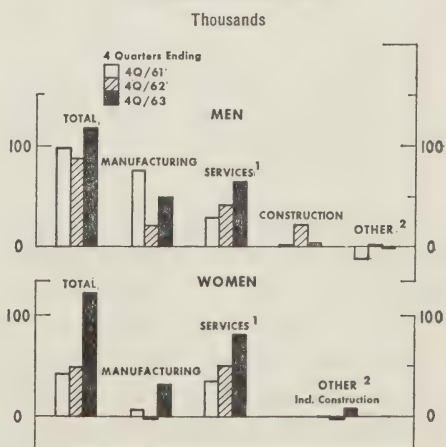
In contrast to 1962, when virtually all the increase in employment took place amongst full-time workers, an appreciable proportion of the 1963 gain was attributable to part-time workers. Persons normally working less than 35 hours a week accounted for 21 per cent of the increase in male employment during the year and 40 per cent of the increase in female employment.

FEMALE LABOUR FORCE



NON-FARM EMPLOYMENT

Changes During Year



1. Includes Retail and Wholesale Trade, Finance, Recreation, Personal and Business Services, Government and Community Services.

2. Includes Mining, Forestry, Fishing, Transportation and Public Utilities.

The employment situation in all the major regions of the country improved during 1963, though the extent of the improvement varied. The largest gain in employment between the fourth quarter of 1962 and the fourth quarter of 1963 occurred in Quebec (5.4 per cent) while the smallest took place in the Atlantic region (0.9 per cent). The variations in labour force growth among regions conformed quite closely to the variations in employment, but in every region employment increased more than the labour force so that, as the table below shows, unemployment rates in all regions declined during the year. Wide disparities in unemployment rates remain both between regions and between different areas within regions. It will be seen from the table that the average unemployment rates in Ontario and the Prairies are now much closer to their average level of the mid-1950's than are the rates in the other regions.

UNEMPLOYMENT AS A PERCENTAGE OF LABOUR FORCE

Fourth quarter	Atlantic	Quebec	Ontario	Prairie	B.C.	Canada	
	Not seasonally adjusted						Seasonally adjusted
1953	6.2	4.0	2.4	1.7	3.8	3.3	3.7
1954	5.1	5.4	3.7	2.4	4.7	4.2	4.7
1955	5.0	4.1	2.5	2.6	2.7	3.2	3.9
1956	4.8	3.5	1.9	1.8	2.9	2.7	3.2
1957	8.3	6.5	4.0	3.3	7.2	5.3	5.9
1958	11.5	7.8	5.1	3.4	7.7	6.4	7.2
1959	8.0	6.4	4.1	3.4	6.4	5.2	5.9
1960	9.6	8.3	5.6	4.2	9.5	6.8	7.7
1961	8.7	6.6	4.2	4.3	6.7	5.6	6.3
1962	9.2	7.0	3.4	3.6	6.7	5.2	5.9
1963	7.5	5.9	3.1	2.8	5.8	4.5	5.1

PRICES AND COSTS. On average, prices rose in 1963 by about the same amount as in 1962. Hourly earnings of manufacturing employees rose slightly more than in 1962. Part of the upward movement of prices in 1963 resulted from increases in the world prices of some imported primary commodities, particularly sugar. Rises in the prices of some investment goods occurred as the result of the wider application of federal sales taxes.

The consumer price index rose by 1.7 per cent between December 1962 and December 1963 compared with an increase of 1.6 per cent over the preceding twelve months. As in 1962, much of the increase in the index resulted from higher food prices, which were up by 2.8 per cent. The price of refined sugar

rose by nearly 90 per cent during 1963; excluding sugar, the food index rose by 1.7 per cent, compared with 2.6 per cent during 1962. Durable goods prices fell slightly during the year, but the price index of non-durable goods other than food was pushed up by increases in clothing items, caused partly by higher world prices for wool. A significant part of the increase in service prices resulted from rises in the health and personal care component.

PRICES AND EARNINGS

Per cent increases, 12 months ending

	<u>Dec. 1960</u>	<u>Dec. 1961</u>	<u>Dec. 1962</u>	<u>Dec. 1963</u>
Consumer price index:				
Total	1.3	0.2	1.6	1.7
Food	2.4	-0.6	2.7	2.8
Food excluding sugar	2.3	-0.6	2.6	1.7
Goods other than food	-0.1	-0.1	0.5	0.8
Services	1.9	1.2	1.5	1.5
General wholesale price index	0.3	2.6	2.4	1.4
Non-farm wholesale price index	-0.4	2.8	1.7	1.6
Hourly earnings:				
Manufacturing	2.2	3.3	3.2	3.6
Mining	2.9	2.3	2.3	1.8
Construction	2.7	3.1	5.0	3.8

While some delayed effects of the 1960-62 decline in the external value of the Canadian dollar probably continued to work their way through the price structure in 1963, they do not appear to have been a major feature of price developments during the year. A comparison of the changes in consumer prices in Canada and the United States since 1960 is shown in the table on the following page. The percentage increases in the total consumer price indices of the two countries over this period have been similar. Within the totals, prices of some durable goods such as household appliances have fallen in both countries, but more in Canada than the United States. Prices of some services such as house rents have risen in both countries, but less in Canada than the United States. On the other hand, food and clothing prices have risen more in Canada than the United States, although in the case of food this has been mainly due to differences in the sugar importing arrangements of the two countries.

CONSUMER PRICE INDEX: CANADA AND UNITED STATES

Percentage changes

		<u>12 months ending December</u>				<u>4 years ending December 1963</u>
		<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	
Total index:	Canada	1.3	0.2	1.6	1.7	4.9
	U.S.	1.6	0.5	1.2	1.7	5.2
Total other than food:	Canada	0.8	0.5	1.2	1.3	3.9
	U.S.	1.0	1.1	1.1	1.7	5.1
Total excluding sugar ⁽¹⁾ :	Canada	1.3	0.2	1.6	1.4	4.6
	U.S.	1.6	0.6	1.2	1.6	5.1
Food						
Total:	Canada	2.4	-0.6	2.6	2.8	7.3
	U.S.	3.1	-0.8	1.5	1.8	5.6
Food excl. sugar ⁽¹⁾ :	Canada	2.3	-0.6	2.6	1.7	6.0
	U.S.	3.1	-0.9	1.5	1.5	5.3
Goods other than food						
Durable goods:	Canada	-1.8	-1.4	-0.3	-0.6	-4.2
	U.S.	-2.6	1.1	0.6	0.5	-0.5
Clothing:	Canada	1.1	1.0	1.8	2.7	6.7
	U.S.	1.3	0.3	0.4	1.5	3.6
Non-durable goods excl. food and clothing:	Canada	-0.1	0.3	0.2	0.7	1.2
	U.S.	0.7	0.2	1.4	1.0	3.4
Services						
Health services:	Canada	1.9	1.1	2.2	3.3	8.8
	U.S.	3.1	2.9	2.5	1.9	10.8
Other services:	Canada	1.9	1.2	1.3	1.1	5.6
	U.S.	2.3	1.5	1.3	2.4	7.7

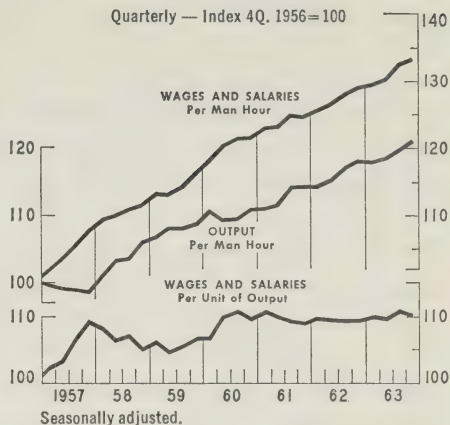
(1) Excludes only sugar sold as such. Includes various manufactured foodstuffs with a high sugar content.

Labour costs per unit of output in manufacturing industry were again relatively stable through 1963. Manufacturing output per man-hour rose slightly less than it had done during 1962, but this was sufficient to offset most of the concurrent increase in wages and salaries per man-hour.

In the rest of the non-farm economy, average labour costs per unit of output appear to have risen somewhat more in 1963 than in 1962. Wages and salaries per employee increased while output per employee apparently showed little change. Two qualifications should be attached to this statement. The first is that the statistical measurement of real output in some of the sectors concerned is considerably more difficult than in manufacturing and may not be of the same order of precision. The second is that some of the principal gains in employment during 1963 occurred in service and other industries characterized by larger-than-average labour requirements per unit of output and this would have tended to hold down the over-all increase in output per employee.

OUTPUT, WAGES AND SALARIES IN MANUFACTURING

Quarterly — Index 4Q. 1956=100



LONGER-TERM DEMAND GROWTH IN THE CANADIAN ECONOMY. It may be of interest at this point to view some features of the current expansion of the Canadian economy in a longer-term perspective. The accompanying table and charts attempt to do this by measuring the growth of demand since the business-cycle peak of early 1960 and comparing this with the growth which occurred between each of the last three cyclical peaks in business activity. Thus the table on the following page and the charts on page 31, which are on a constant-dollar basis, compare the growth in demand by sectors since the peak reached in 1960 with that which occurred in the periods between the cyclical peaks of 1953 and 1957 and between 1957 and 1960. Another method of gaining perspective would be to measure the growth of demand since the business-cycle low-point or trough of early 1961 and to compare this with growth in the “trough-to-peak” periods ending in 1957 and 1960. Both methods have their merits: the “peak-to-peak” method used here gives perhaps a more continuous picture of economic performance since recessions are included.

One important difference among the three periods has been in the behaviour of non-residential fixed investment, which grew strongly in the 1953-57 period, declined sharply between 1957 and 1960, and has not been a dynamic element in the current expansion to date. Another major difference has been in the contribution made to the current expansion by the external sector; strong growth in exports has been accompanied by a much slower growth in imports. This is in striking contrast to the 1953-57 experience in particular, when imports grew much more quickly than exports. The build-up in non-farm business inventories (see chart on the facing page) in the current period to date has not been as large as in the 1953-57 period; this may in part be due to the fact that the highest rates of inventory accumulation typically occur only towards the end of cyclical expansions, but it probably also reflects the application of improved inventory control techniques by business in recent years and the absence of various inducements to speculative inventory buying of raw materials such as existed in the mid-1950's. In the current period, as in 1953-57, growth in consumer durable expenditures has been an important contributor to over-all growth, and all three periods have been marked by a high rate of growth in expenditure on goods and services by provinces and municipalities.

CHANGES IN REAL GROSS NATIONAL EXPENDITURE⁽¹⁾ AND MAJOR COMPONENTS

Measured between business-cycle peaks of 1953, 1957 and 1960, and from 1960 peak to date

	Percentage average annual increase or decrease (—)		
	2Q'53 to 1Q'57	1Q'57 to 1Q'60	1Q'60 to 4Q'63
Gross national expenditure ⁽²⁾	4.1	2.4	3.8
Personal expenditure			
Durables	5.8	2.1	6.6
Non-durables	4.5	3.4	3.0
Services	4.9	4.6	3.4
Government expenditure on goods and services			
Federal	—2.2	—2.2	—1.3
Provincial and municipal	6.6	8.4	5.5
Fixed investment			
Residential construction	2.1	2.8	2.1
Other	10.3	—6.8	0.5
Final domestic demand	5.1	1.8	3.0
Exports of goods and services	2.4	3.6	6.2
Imports of goods and services	6.4	0.5	1.5

(1) Basic data seasonally adjusted at annual rates, in 1957 constant dollars.

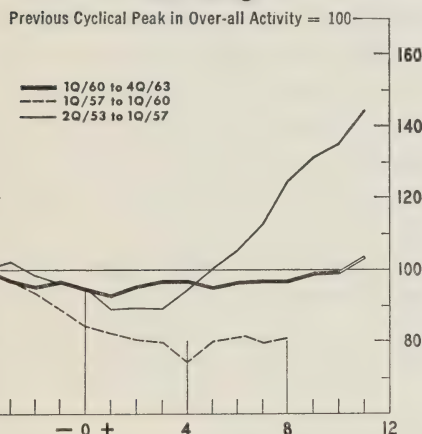
(2) In addition to components shown separately, includes changes in inventories, residual error and adjustments. A chart of changes in non-farm business inventories will be found on the facing page.

Over-all, real gross national expenditure has grown at an average annual rate of 3.8 per cent since the cyclical peak of 1960. This compares with a rate of 2.4 per cent between the peaks of 1957 and 1960, and of 4.1 per cent in 1953-57. Measured from the cyclical trough of early 1961, the growth of real gross national expenditure to the fourth quarter of 1963 was at an average annual rate of 5.8 per cent. This compares with a rate of 4.1 per cent between the trough of 1958 and the peak of 1960, and a rate of 7.2 per cent between the trough of 1954 and the peak of 1957.

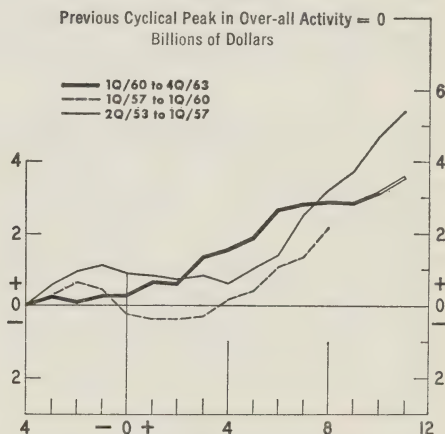
INDICES OF REAL EXPENDITURE

Changes From Previous Business Cycle Peak

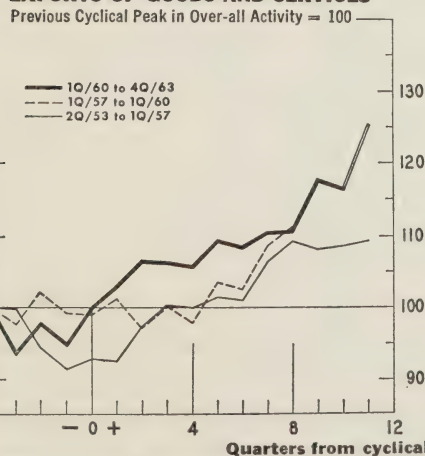
BUSINESS FIXED INVESTMENT Excl. Housing



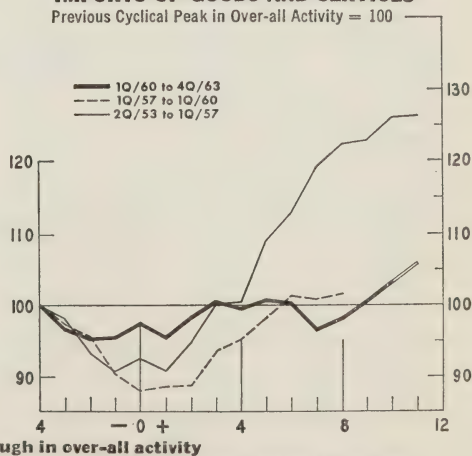
CUMULATIVE CHANGE IN BUSINESS INVENTORIES Non-Farm



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES

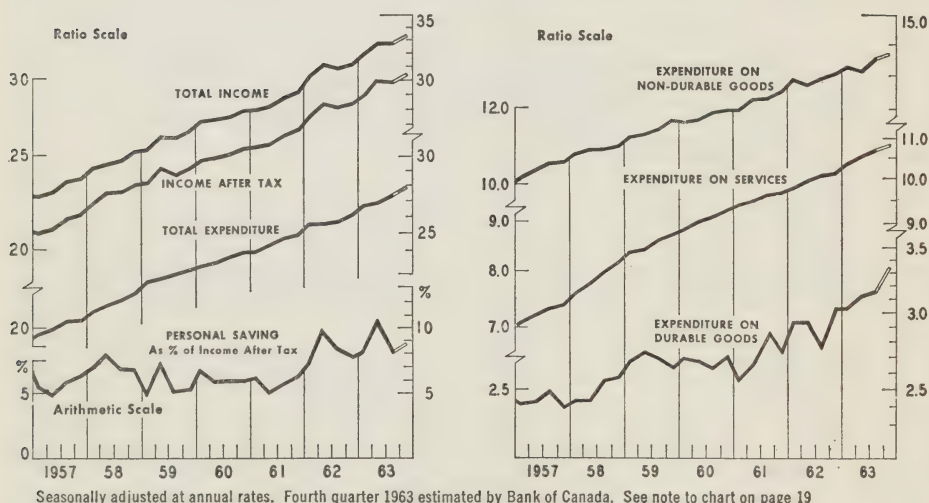


Seasonally adjusted. Basic data in constant 1957 dollars. Fourth quarter estimate by Bank of Canada. See note to chart on page 19.

PERSONAL SECTOR. Personal income both before and after taxes increased by some 7 per cent between the fourth quarter of 1962 and the fourth quarter of 1963, while personal expenditure grew by 6½ per cent. Spending on durable goods increased by some 10 per cent over the course of the year while spending on non-durable goods increased by about 5 per cent. As in 1962 the rise in expenditure on durable goods reflected primarily the rate of spending on automobiles, which was maintained at a high level through the first three quarters of the year and then increased sharply in the final quarter. The value of total new passenger car sales in 1963 exceeded that of the previous year by 15 per cent; the value of sales of North American model cars rose by 20 per cent. Expenditure on services increased by 7 per cent or slightly more than in 1962. For the year as a whole, personal savings were about 8½ per cent of income after taxes compared with 8.3 per cent in 1962 and 5.8 per cent in 1961.

PERSONAL INCOME AND EXPENDITURE

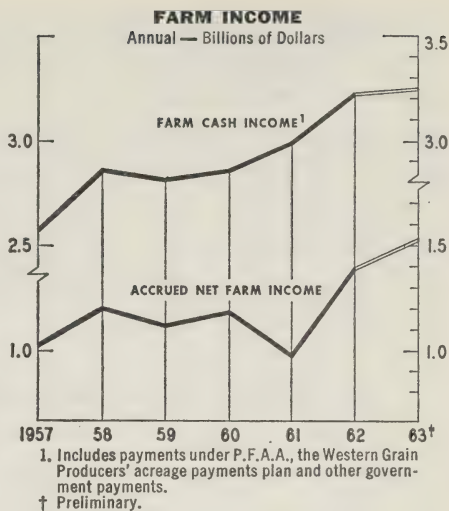
Quarterly — Billions of Dollars



FARM INCOME. Reflecting mainly the record wheat crop harvested in Western Canada, accrued net farm income (a National Accounts measure of the net value of farm production) rose to about \$1,530 million in 1963 from just under \$1,400 million in 1962 and a drought-reduced figure of less than \$1,000 million in 1961.

Farm cash income (cash receipts from all farming operations) also increased from the record 1962 level but the rise was more modest as higher returns from grain marketings were partly offset by small declines in other sales and by lower government payments. New contracts for the sale of wheat and flour to the U.S.S.R. (which amounted to the equivalent of approximately 239 million bushels) and other overseas customers for delivery in the 1963-64 crop-year had only a moderate impact on farm cash income in 1963 since a large part of the grain required was already available in commercial positions.

The Wheat Board's marketing and payments procedures for wheat, oats and barley grown in the prairie provinces involve an initial payment at the time grain is delivered to country elevators, a possible later interim payment, and later still a final settlement when the marketing pool is closed out. These will tend to spread the cash returns from the bumper 1963 grain crops and the record export sales over a period of time, with a particularly heavy cash flow in the first half of 1964 and substantial further receipts through the balance of the year and into 1965.



WHEAT: STATISTICAL POSITION

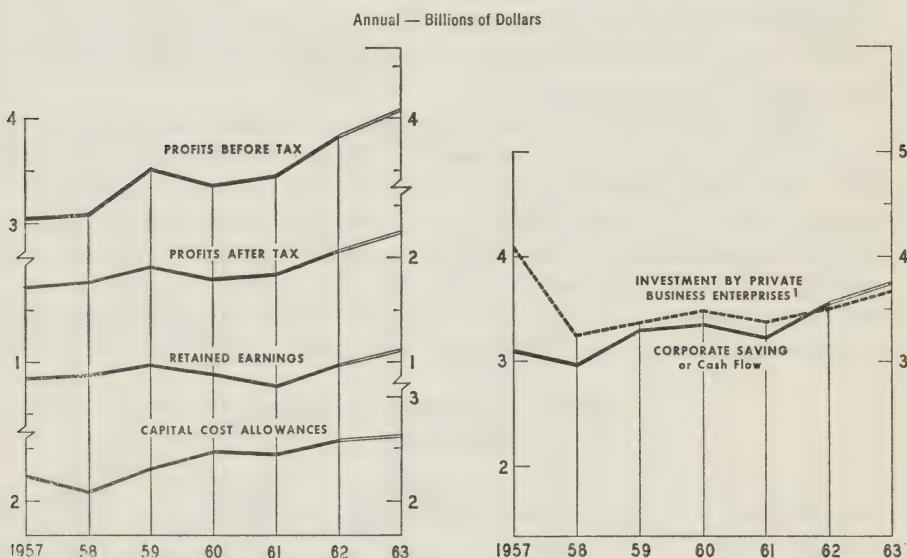
(millions of bushels)

<u>Crop-years</u>	<u>Crop</u>	<u>Apparent domestic disappearance</u>	<u>Exports of wheat and flour</u>	<u>End of period stocks</u>
1953-54	634	144	255	619
1954-55	332	162	252	537
1955-56	519	164	312	580
1956-57	573	155	264	734
1957-58	393	158	320	648
1958-59	398	164	295	588
1959-60	445	156	277	600
1960-61	518	157	353	608
1961-62	283	142	358	391
1962-63	566	138	331	487
10-year average	466	154	302	579
1963-64	723	145 ⁽¹⁾	over 550 ⁽¹⁾	under 515 ⁽¹⁾

(1) Estimate.

BUSINESS SECTOR. Corporate profits before taxes in 1963 were about 7 per cent higher than in 1962. The figure was slightly reduced by the transfer of privately-owned Quebec power utilities to government ownership and the corresponding transfer of their net earnings from the corporate to the government sector. Corporate profits after tax accruals rose by 8 per cent in 1963, and retained earnings by 11 per cent. As in the previous year, corporate savings or cash flow, defined as the total of retained earnings and capital consumption allowances, would appear to have been greater than total fixed investment by private business enterprises.

CORPORATE SAVING AND PRIVATE BUSINESS INVESTMENT



Estimates for 1963 include fourth quarter estimate by Bank of Canada. See note to chart on page 19.

1. Excluding agriculture and fishing but including other unincorporated businesses.

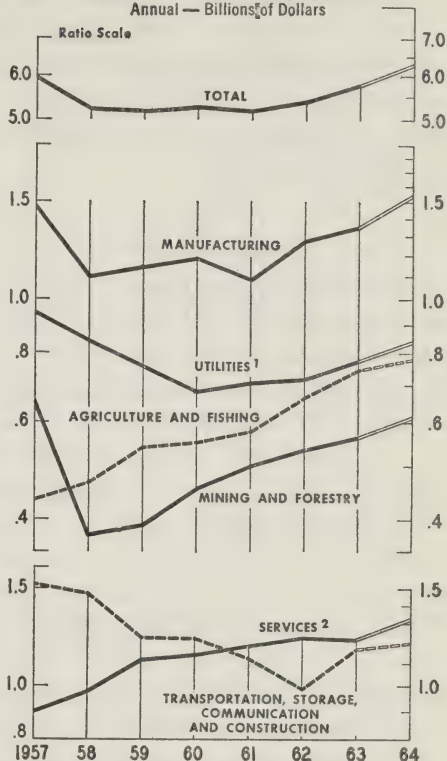
Total investment outlays by private and government-owned business enterprises on non-residential construction and machinery and equipment, as defined in the National Accounts, rose at a fairly steady rate during 1963. For the year as a whole, such outlays were about 8 per cent higher, compared with an increase of 4 per cent in 1962. Investment by manufacturing industries was 6 per cent higher in 1963; major increases occurred in forest products, transportation equipment, and chemical products. There were above-average increases in

investment outlays by gas utilities, by railways, telephones and telegraphs, by urban transit systems and in agriculture and forestry. The annual survey of investment intentions conducted by the Department of Trade and Commerce indicates that business fixed investment outlays in 1964 are expected to rise by a further 8 per cent; a particularly large gain of some 15 per cent is indicated for manufacturing industries. Among non-manufacturing industries, some of the larger increases are those planned by railways, waterworks and institutions.

HOUSING. Expenditure on new residential construction in 1963 was about 6½ per cent higher than in 1962, and the Department of Trade and Commerce survey suggests that housing expenditure in 1964 may rise by a further 10 per cent.

Starts in 1963 numbered 148,624 units compared with 130,095 in 1962. Completions in 1963 numbered 128,191 units, only slightly more than the 1962 total. The seasonally adjusted rate of housing starts rose gradually during the first three quarters of 1963, with a strong upsurge in starts of apartment dwellings and other multiple units more than offsetting a declining trend in starts of single family dwellings. In the fourth quarter, however, starts of single family units rose sharply as a result of the Government's winter construction incentive programme and

BUSINESS FIXED INVESTMENT Non-residential Construction, New Machinery and Equipment

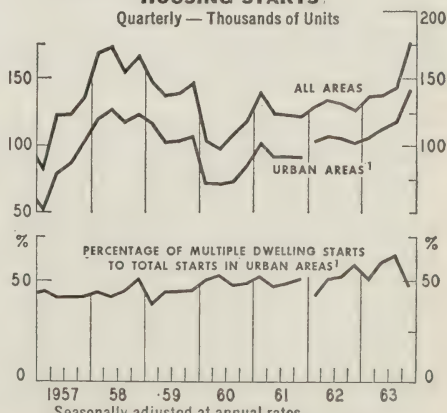


Figures for 1964 are from Department of Trade and Commerce survey of intentions.

1. Electric, gas and water utilities.

2. Trade, commercial and financial services and private institutions.

HOUSING STARTS¹ Quarterly — Thousands of Units



Seasonally adjusted at annual rates.

1. Areas of 5000 population and over. Break reflects reclassification of boundaries following 1961 census.

an increased volume of direct loans to builders by the Central Mortgage and Housing Corporation. Multiple units accounted for most of the increase in starts for the year as a whole, rising from 55,652 units in 1962 to 71,466 in 1963; the number of single family dwellings started increased from 74,443 to 77,158 units. Since multiple units are financed mainly through conventional mortgage loans, starts financed under the National Housing Act were only slightly higher in 1963 than in 1962.

GOVERNMENT SECTOR.* Total expenditures by federal, provincial and municipal governments continued to rise in 1963. The increase was almost matched by the increase in total revenues and for the year as a whole the combined deficit of all three levels of government, computed on the National Accounts basis, appears to have changed little from the deficit of \$770 million in 1962.

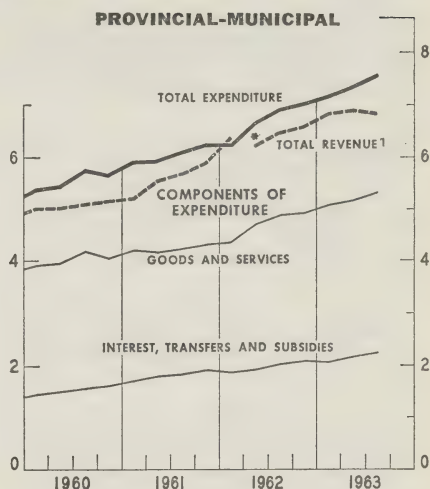
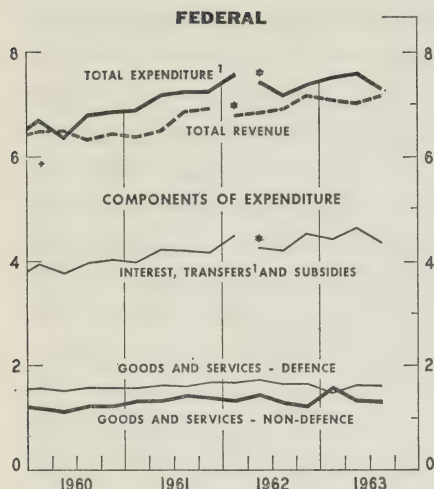
At the federal level, expenditure on goods and services changed very little from the previous year as a decline in defence expenditure offset a rise in other categories. Federal expenditure on all other items including subsidies, transfer payments to individuals and transfers to provincial and municipal governments, was higher in total in 1963 than in 1962 although on a seasonally adjusted basis there was on balance very little change from the level attained in the fourth quarter of 1962. Increases in such items as hospital insurance, vocational training, old age assistance and interest on the public debt were partly offset by smaller payments to Western farmers, reflecting better crop conditions. There was a decline in statutory payments to the provinces; under the present federal-provincial fiscal arrangements, a larger share of certain revenues is collected by the federal government on behalf of the provinces and transferred to them, this being in part a replacement of some of the former statutory payments. Thus the new arrangements make both the revenue and expenditure of the federal government smaller than they otherwise would have been.

* This section examines government revenues and expenditures on the National Accounts basis which differs in several ways from the administrative accounting statements of the various levels of government. The administrative presentations are designed primarily to serve the objective of legislative control; the National Accounts statements attempt to record transactions between the government and all other sectors in a way that facilitates the measurement of their impact on the economy. On the revenue side, contributions and other income of civil service superannuation accounts are treated as revenue, along with the investment income and other receipts of extra-budgetary funds dealing with such matters as unemployment insurance, old age security and workmen's compensation. Corporation taxes are carried on an accrual basis, and the profits (net of losses) of government business enterprises are recorded when earned rather than when remitted. On the expenditure side, certain transactions are excluded such as provision for reserves, amortization and write-offs, purchases of land and other existing capital assets, and transfers to various crown agencies and extra-budgetary funds including those mentioned above. On the other hand, pension payments and other actual outlays by these agencies and funds are included.

GOVERNMENT REVENUE AND EXPENDITURE

National Accounts Basis [†]

Quarterly — Billions of Dollars



Seasonally adjusted at annual rates.

[†] See note to chart on page 19.

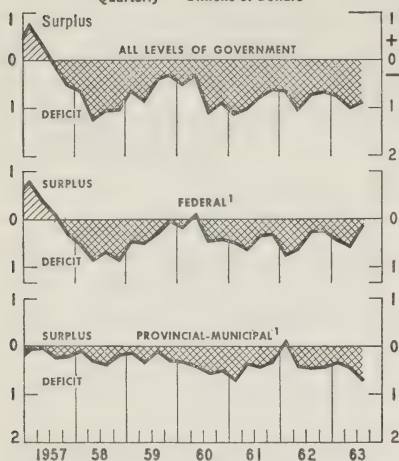
1. Includes intergovernmental transfers.

* Revenue reflects the new tax collection arrangements with the provinces commencing with the first quarter of 1962; federal-provincial transfer payments at the higher level of the former tax arrangements continued through the first quarter of 1962.

At the provincial and municipal levels of government, outlays on goods and services and other expenditures continued to rise in 1963. For the first three quarters of 1963 outlays on goods and services including capital investment in highways, schools and hospitals, were 11 per cent higher than in the corresponding period of 1962. Transfer payments, including hospital insurance and grants to universities and hospitals as well as social assistance, also increased.

Federal government revenues declined on a seasonally adjusted basis during the first half of 1963. This reflected a decline in customs duties associated with the removal of the special import surcharges and a decline in net collections of personal income taxes in the spring months as a result of unusually high refund payments. During the second half of the year revenues rose strongly. The increase was attributable to the removal of sales tax exemptions on some investment goods, to the return of refund payments to more normal levels, and to the more rapid rate of growth in the economy generally. Revenues of provincial and municipal governments rose further in 1963 though less rapidly than in 1962; the principal increases occurred in receipts from indirect taxes on gasoline, retail sales and real property, and from personal income taxes. The latter reflected

GOVERNMENT SURPLUS OR DEFICIT
National Accounts Basis[†]
 Quarterly — Billions of Dollars



Seasonally adjusted at annual rates.

[†] See note to chart on page 19.

1. Includes intergovernmental transfers.

both the quickening in economic activity in the second half of the year and increased federal tax abatement under the federal-provincial fiscal arrangements.

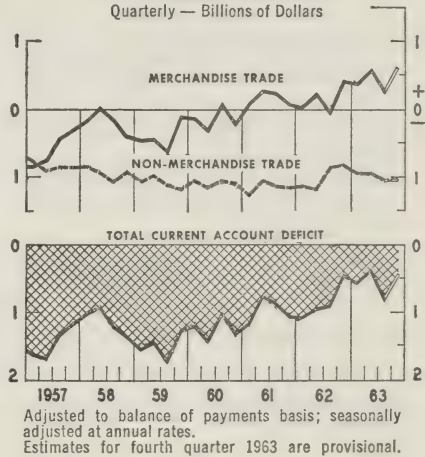
In 1962 and the first half of 1963, the deficit of the federal government on the National Accounts basis fluctuated considerably from quarter to quarter as a result of various special and temporary factors. These included the overlapping of the old and new federal-provincial fiscal arrangements in the first quarter of 1962, which had the effect of increasing the deficit at the federal level and reducing it at the provincial-municipal level; the imposition of import surcharges and of expenditure cuts at the time of the 1962 ex-

change emergency, and their later removal; retroactive government pay increases; and the high level of tax refunds in the spring of 1963. It appears on the basis of preliminary data that the federal deficit in the second half of 1963 was running substantially below the rate in the first half of the year. The combined deficit of provincial and municipal governments ran at an average annual rate of about \$500 million in the first three quarters of 1963 compared with a rate of just over \$400 million in the three quarters of 1962 which were unaffected by the overlapping of fiscal arrangements.

International Trade and Payments

CURRENT ACCOUNT. The deficit in Canada's international balance of payments on current account was reduced from \$848 million in 1962 to \$521 million in 1963. The large shipments of wheat and flour to the Soviet Union accounted for more than half the improvement; without these exports the current account deficit in 1963 would have been about \$700 million. The surplus of merchandise exports over imports rose from \$155 million in 1962 to \$484 million in 1963 while the deficit on non-merchandise trade remained the same as in 1962. On a regional basis, the current account deficit with the United States increased slightly from \$1,116 million in 1962 to \$1,158 million in 1963; the current surplus with all other countries rose from \$268 million to \$637 million. A table showing the composition of the current account for the years 1959 to 1963 appears on the following page.

**BALANCE OF INTERNATIONAL PAYMENTS
ON CURRENT ACCOUNT**
Quarterly — Billions of Dollars



The measures taken in the middle of 1962 to deal with the foreign exchange emergency resulted in a sharp reduction in the current account deficit in the fourth quarter of that year and after allowing for normal seasonal movements the deficit remained at about the same level in the first half of 1963. It widened in the third quarter as merchandise imports rose and exports declined slightly, but contracted again in the fourth quarter as a result of the upsurge in wheat shipments.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT

(millions of dollars)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
With All Countries					
Merchandise trade					
Exports.....	5,150	5,392	5,889	6,364	7,064
Imports.....	<u>-5,572</u>	<u>-5,540</u>	<u>-5,716</u>	<u>-6,209</u>	<u>-6,580</u>
Balance on merchandise trade.....	-422	-148	173	155	484
Non-merchandise trade balances					
Gold production available for export.....	148	162	162	165	166
Travel.....	-207	-207	-160	-50	13
Interest and dividends.....	-489	-480	-561	-570	-614
Freight and shipping.....	-105	-91	-82	-90	-85
Inheritances and migrants' funds.....	-56	-79	-71	-39	-33
All other current transactions ⁽¹⁾	-301	-339	-387	-387	-391
Official contributions.....	<u>-72</u>	<u>-61</u>	<u>-56</u>	<u>-32</u>	<u>-61</u>
Total balance on non-merchandise trade	-1,082	-1,095	-1,155	-1,003	-1,005
Balance on current account.....	<u><u>-1,504</u></u>	<u><u>-1,243</u></u>	<u><u>-982</u></u>	<u><u>-848</u></u>	<u><u>-521</u></u>
With the United States					
Merchandise trade					
Exports.....	3,191	3,040	3,213	3,742	3,952
Imports.....	<u>-3,727</u>	<u>-3,713</u>	<u>-3,828</u>	<u>-4,217</u>	<u>-4,464</u>
Balance on merchandise trade.....	-536	-673	-615	-475	-512
Non-merchandise trade balance.....	<u>-694</u>	<u>-688</u>	<u>-771</u>	<u>-641</u>	<u>-646</u>
Balance on current account.....	<u><u>-1,230</u></u>	<u><u>-1,361</u></u>	<u><u>-1,386</u></u>	<u><u>-1,116</u></u>	<u><u>-1,158</u></u>
With All Other Countries					
Merchandise trade					
Exports.....	1,959	2,352	2,676	2,622	3,112
Imports.....	<u>-1,845</u>	<u>-1,827</u>	<u>-1,888</u>	<u>-1,992</u>	<u>-2,116</u>
Balance on merchandise trade.....	114	525	788	630	996
Non-merchandise trade balance.....	<u>-388</u>	<u>-407</u>	<u>-384</u>	<u>-362</u>	<u>-359</u>
Balance on current account.....	<u><u>-274</u></u>	<u><u>118</u></u>	<u><u>404</u></u>	<u><u>268</u></u>	<u><u>637</u></u>

Source: Dominion Bureau of Statistics.

Note: A positive figure indicates a receipt and a negative figure indicates a payment.

(1) Includes business services, Government transactions and personal and institutional remittances not included elsewhere.

MERCHANDISE TRADE.

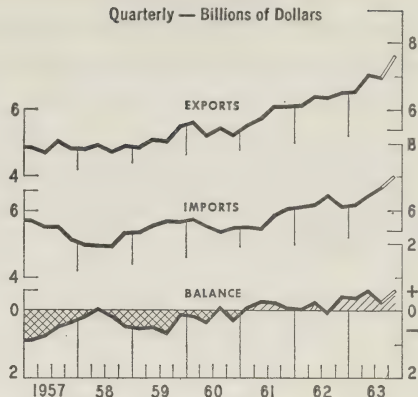
Canadian merchandise exports rose more rapidly in 1963 than in 1962 or 1961 and for the year as a whole they were 11 per cent larger by value and 10 per cent larger by volume than in 1962. Excluding the grain shipments to the Soviet Union the value of exports was 8 per cent larger than in 1962. Merchandise imports were 6 per cent higher by value and some 2-3 per cent higher by volume than in 1962.

Exports of wheat and flour were about \$200 million higher and accounted for about one third of the total increase in Canadian exports in 1963. The improvement was concentrated in the second half of the year. It was due mainly to heavy shipments to the Soviet Union under the agreement signed in September to export wheat and flour valued at close to \$500 million in the 1963-64 crop-year. Shipments of other farm products declined slightly, while exports of fish increased.

Exports of non-farm commodities rose by 9 per cent in 1963; shipments to the United States were \$170 million or 5 per cent higher while those to other

MERCHANDISE TRADE

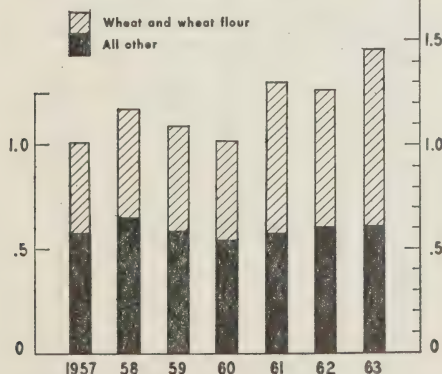
Quarterly — Billions of Dollars



Adjusted to balance of payments basis; seasonally adjusted at annual rates.
Estimates for fourth quarter 1963 are provisional.

EXPORTS OF FARM AND FISH PRODUCTS

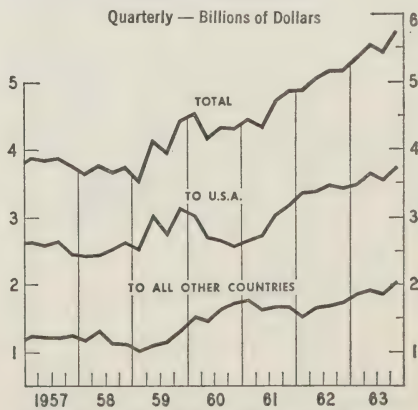
Annual — Billions of Dollars



Trade of Canada basis.

NON-FARM EXPORTS

Quarterly — Billions of Dollars



Trade of Canada basis; seasonally adjusted at annual rates.
(Not adjusted to balance of payments basis).

countries increased by \$260 million or 16 per cent. Exports of resource products rose: substantial increases in exports of lumber, wood pulp, iron ore and primary iron and steel, and relatively minor increases in newsprint, oil and gas, and most non-ferrous metals were offset in part by a reduction in uranium exports. Growth of exports of resource products during the course of the year was uneven, reflecting in part a strong upsurge in shipments of copper, nickel and aluminum to the United States in the second quarter followed by a sharp reduction in the third quarter.

Exports of fully manufactured goods rose sharply for the third consecutive year. Since 1960 they have increased by 80 per cent; in 1963 they accounted

MERCHANDISE EXPORTS BY COMMODITIES

Quarterly — Billions of Dollars

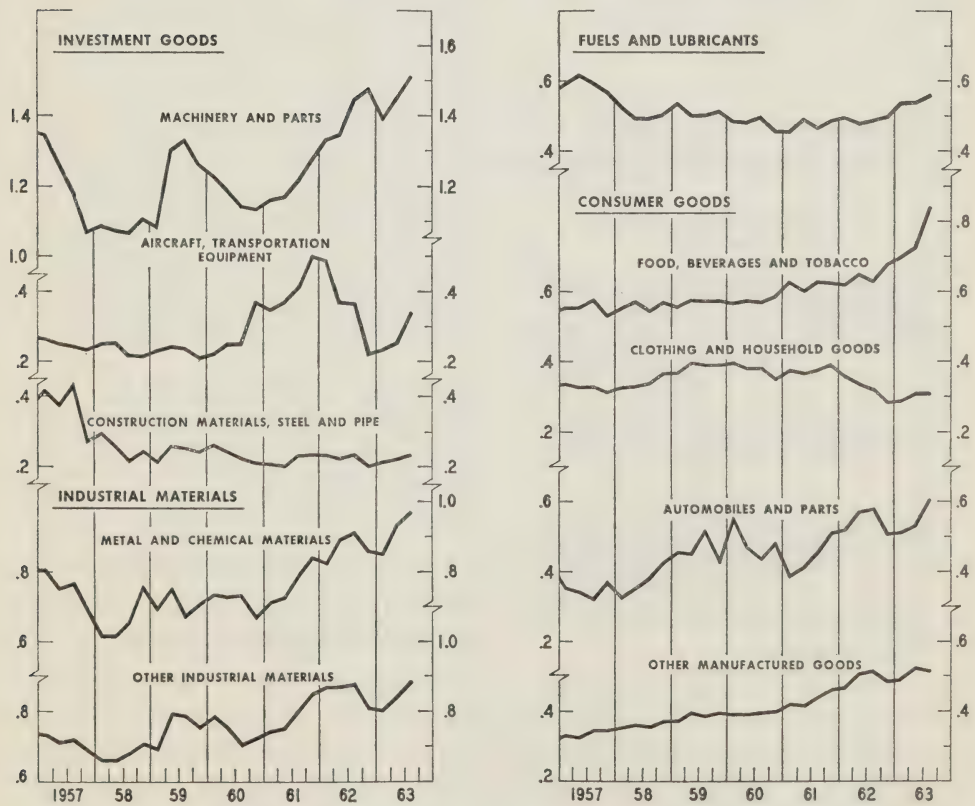


for 19 per cent of total Canadian non-farm exports compared with 14 per cent in 1960. Exports of aircraft were lower in 1963 than in 1962 but the upward trend in shipments of farm implements, machinery, railway rolling stock, automobile parts, and textiles continued.

Although, as previously noted, imports in 1963 were only 6 per cent higher than in 1962, they increased substantially over the course of the year; the increase from the fourth quarter of 1962 to the fourth quarter of 1963 was 14 per cent. Various factors contributed to this rapid rise during the year. In the final quarter of 1962 imports had been reduced by the temporary surcharges

MERCHANDISE IMPORTS BY END-USE

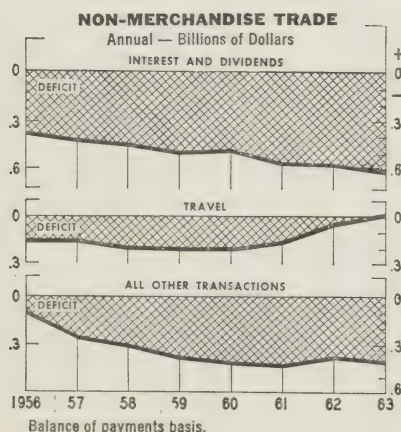
Quarterly — Billions of Dollars



Trade of Canada basis; seasonally adjusted at annual rates.

imposed in the summer of 1962 and the subsequent drawing down of inventories of imported goods. The removal, late in the first quarter of 1963, of the remaining surcharges—comprising the major part of those originally imposed—contributed to a rebound in imports during the second quarter. After mid-year, the changes in the composition of domestic demand consequent upon the quickening pace of economic expansion contributed further to the growth of imports. Renewed inventory accumulation in the second half of the year, the pick-up in expenditures on new machinery and equipment and the record level of activity in the automobile industry after the start of the new model year gave rise to strong increases in imports of industrial materials, machinery and automobile components. A further factor contributing to the rise in the value of imports of industrial materials and foodstuffs over the course of 1963 was the very sharp increase in sugar prices and increases in world prices of coffee, cocoa, wool and tin.

NON-MERCHANDISE TRADE. The deficit on non-merchandise trade in 1963 amounted to about \$1,000 million, unchanged from 1962. The travel account



had improved markedly in the course of 1962 and the small surplus achieved in the fourth quarter of that year was, on a seasonally adjusted basis, maintained in 1963; for the year as a whole the travel account was in surplus for the first time since 1950. Dividend payments, which had declined in 1962, remained at the reduced level during the first three quarters of 1963 but rose sharply in the fourth quarter. Interest payments continued to increase in 1963 and foreign aid contributions were also higher.

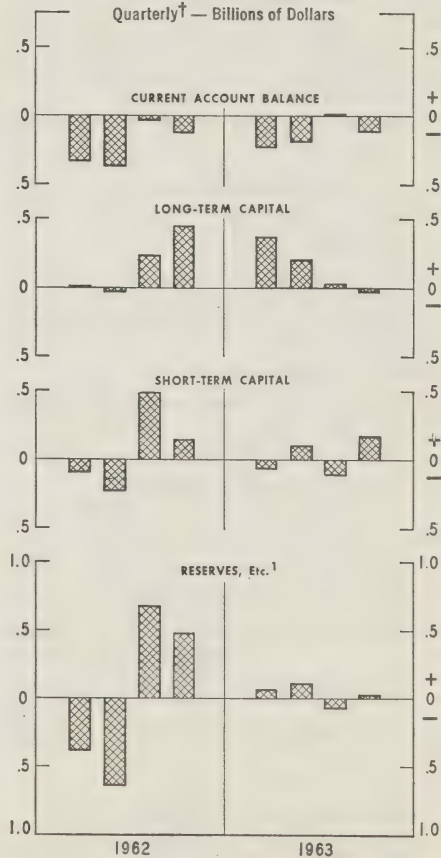
CAPITAL ACCOUNT. In 1963 the net inflow of capital, which was mainly in long-term forms, slightly exceeded the current account deficit. During the course of the year there were substantial flows of short-term capital both into and out of the country but for the year as a whole the net inflow amounted to only \$83 million compared with \$332 million in 1962. A table showing the detail of capital movements in 1962 and 1963 appears on the following page.

The net inflow of long-term capital in 1963 amounted to \$584 million, \$88 million less than in 1962. Virtually all of the net inflow occurred in the first half of the year. The composition of the capital flow changed significantly in 1963; inflows resulting from net transactions in Canadian securities were \$162 million higher than in 1962 while those resulting from direct investment were \$300 million lower. There were fewer take-overs of existing Canadian businesses by non-residents, and other forms of direct investment also fell in 1963 as they had in the two preceding years.

Inflows of funds from new issues of Canadian bonds sold to non-residents rose from \$702 million in 1962 to \$950 million in 1963, but the rate of inflow fell sharply after mid-year. In September 1962, the Government of Canada had completed negotiations for a U.S. \$250 million bond issue in the United States to bolster the exchange reserves; half of this issue was delivered early in January 1963. The Government of Canada issue was followed by a substantial number of new issues of provincial, municipal and corporate bonds of various sizes, undertaken for a variety of reasons including interest rate differentials, the magnitude of financial requirements, and special relationships with

BALANCE OF INTERNATIONAL PAYMENTS ON CAPITAL ACCOUNT

Quarterly† — Billions of Dollars



† Not seasonally adjusted.

1. Changes in official holdings of gold and foreign exchange, net I.M.F. position and central bank credits.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS ON CAPITAL ACCOUNT

(millions of dollars)

	1962	1963	1962		1963	
			I Half	II Half	I Half	II Half
Capital in long-term forms						
Direct investment:						
in Canada ⁽¹⁾	555	210	201	354	115	95
abroad ⁽¹⁾	-125	-80	-60	-65	-50	-30
Canadian stocks:						
new issues.....	16	14	7	9	11	3
retirements.....	-35	-75	-9	-26	-70	-5
net trade in outstandings.....	-116	-169	-58	-58	-100	-69
Canadian bonds:						
new issues.....	702	950	240	462	793	157
retirements.....	-286	-252	-134	-152	-158	-94
net trade in outstandings.....	64	39	1	63	50	-11
Foreign securities:						
net transactions.....	-70	20	-60	-10	26	-6
Net repayments of Government of Canada loans	122	15	10	112	6	9
Other long-term capital.....	-155	-88	-162	7	-50	-38
Total capital in long-term forms.....	672	584	-24	696	573	11
Capital in short-term forms						
Canadian holdings of foreign assets ⁽²⁾	94	-252	-167	261	-139	-113
Foreign holdings of Canadian assets ⁽³⁾	134	87	48	86	-9	96
Other short-term capital ⁽⁴⁾	104	248	-170	274	179	69
Total capital in short-term forms.....	332	83	-289	621	31	52
Net capital movements.....	1,004	667	-313	1,317	604	63
Changes in reserves, etc.						
Official holdings of gold & foreign exchange...	537	60	-250	787	177	-117
Net I.M.F. position and central bank credits...	-381	86	-758	377	-	86
Total.....	156	146	-1,008	1,164	177	-31

Source: Dominion Bureau of Statistics.

Note: A positive figure indicates an inflow of capital into Canada, and thus an increase in Canadian liabilities or a decrease in Canadian assets. A negative figure indicates the reverse.

(1) Exclusive of undistributed earnings.

(2) Includes mainly changes in bank balances and treasury bill holdings.

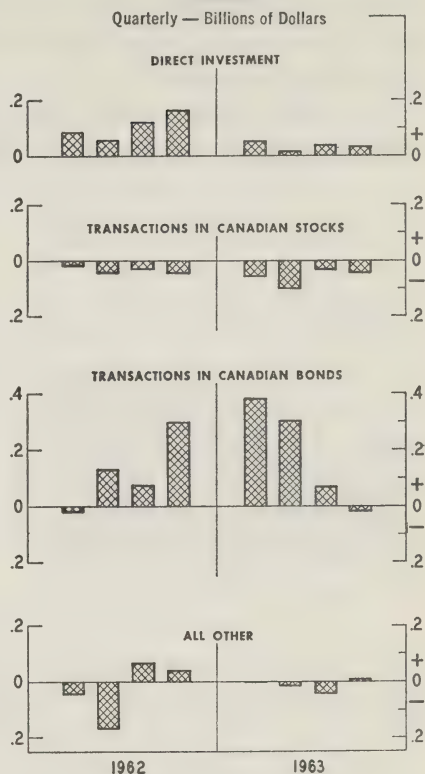
(3) Includes changes in non-resident holdings of Canadian dollar bank balances, Government demand liabilities and treasury bills, and also commercial paper, finance company paper and other obligations.

(4) Includes changes in receivables and payables and a balancing item representing errors and omissions.

lenders. In the first quarter of 1963, the Quebec Hydro-Electric Commission borrowed U.S. \$300 million, with deliveries spread over 15 months, as part of a programme to finance the purchase of privately-owned utility companies in that province.

In the second quarter of the year, the value of new contracts entered into for the sale of Canadian bonds in the United States fell sharply, but because there is an interval—sometimes quite long—between the date of the sales contract and the date on which the proceeds of the borrowing are actually delivered, the volume of funds delivered in the second quarter remained at a high level. During the remainder of the year the uncertainties surrounding the proposed interest equalization tax pending its final disposition by Congress had the effect of preventing the sale of new issues of long-term bonds in the United States market.

CAPITAL MOVEMENTS IN LONG-TERM FORMS



NEW ISSUES OF CANADIAN BONDS SOLD TO UNITED STATES RESIDENTS

(millions of Canadian dollars)

	By date of sales contract	By date of delivery
1962—3Q	371	75
4Q	372	370
1963—1Q	530	400
2Q	131	369
3Q	28	104
4Q	25	37

Source: Dominion Bureau of Statistics.

Non-residents bought a modest amount of outstanding Canadian bonds in the first half of 1963, but after the announcement of the interest equalization tax they reduced their holdings slightly. Non-residents continued to be net sellers of Canadian corporate stocks and the capital outflow resulting from such trans-

actions was appreciably higher in 1963 than in 1962. Part of the outflow in 1963 shown in the chart on the previous page was associated with the retirement of the stock of several privately-owned utility companies which had been taken over by Hydro-Quebec.

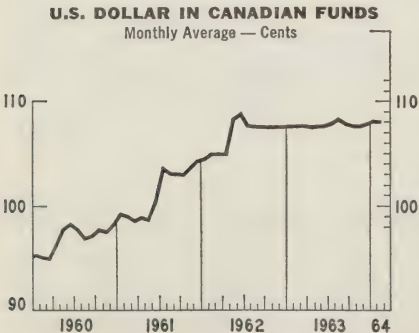
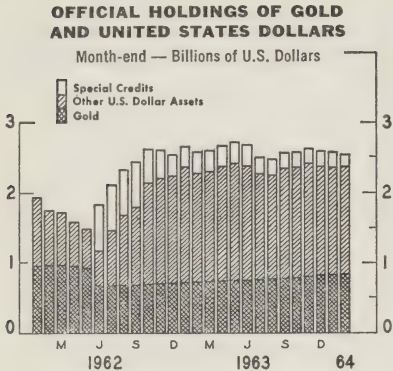
Canada's official holdings of gold and United States dollars amounted to U. S. \$2,595 million at the end of 1963, an increase of U. S. \$56 million since

the end of 1962. In July, Canada repaid the equivalent of U.S. \$80 million to the International Monetary Fund from which it had drawn foreign currencies amounting to U.S. \$300 million in June 1962. A further repayment in the amount of U.S. \$60 million was made in February 1964. Since other members of the Fund had made drawings in Canadian dollars amounting to U.S. \$24 million, Canada's residual obligation to the Fund after its initial drawing amounted to U.S. \$276 million. Taking into account all of the Fund's Canadian dollar

transactions including our repayments of July 1963 and February 1964, Canada's outstanding obligation to the International Monetary Fund at the end of February 1964 amounted to the equivalent of U.S. \$137 million.

Official reserves rose by U. S. \$125 million on January 3, 1963 when the second half of the bond issue sold in New York by the Government of Canada in September 1962 was delivered. Reserves fluctuated around this higher level for the next six months and the United States dollar rate in the Canadian foreign exchange market moved within the narrow range of 107 19/32 to 107 31/32.

In the two days following the announcement of the proposed U.S. interest equalization tax in July the rate rose to 108 9/16 and reserves fell sharply; in total, reserves declined by U.S. \$191 million during the month including the U.S. \$80 million used to repay the International Monetary Fund. The signing of the wheat contract with the Soviet Union in mid-September increased the demand for Canadian dol-



lars and the U.S. dollar rate fell to a low of 107 5/8; by the end of the month reserves had risen by U.S. \$98 million. The rate firmed during the months that followed and closed the year at 108 1/16; reserves showed little net change over the remainder of 1963. The impact on reserves of the large sales of wheat and flour to the Soviet Union was spread out by official operations in the forward exchange market. Because of their impact on the forward rate these operations also had the effect of discouraging inflows of short-term capital on a covered interest arbitrage basis.

LONGER-TERM DEVELOPMENTS IN THE BALANCE OF PAYMENTS.

Canada's balance of payments position on current account has improved very considerably since the late 1950's. The deficit on merchandise trade alone had exceeded \$700 million in 1956 at the height of the investment boom and was still in excess of \$400 million as late as 1959, while the deficit on non-merchandise trade climbed steadily to \$1,150 million in 1961. In total the current account deficit reached a peak of \$1,500 million in 1959. A substantial swing in the merchandise trade balance, from a large deficit to a surplus of \$484 million in 1963, combined with a slight reduction in the non-merchandise deficit since 1961, reduced the total current account deficit to \$521 million in 1963.

Many factors have contributed to the improvement in the merchandise trade balance since the late 1950's. Shipments of our traditional export commodities have increased in line with industrial expansion in our principal markets, and major developments in Canada and abroad have had a significant effect on trade in certain specific commodities. Poor crops in various agricultural areas of the world, notably in the Communist countries, have provided additional markets for Canadian wheat and flour. The completion of oil and natural gas pipelines and the implementation of the National Energy Policy have enabled Canadian producers to replace some imports of petroleum products and coal and to increase the volume of exports. Expanding production from new mines in the Quebec-Labrador region has resulted in heavy exports of iron ore to the United States. The Defence Production Sharing Programme with the United States encouraged the export of aircraft and electronic equipment. On the other hand the sharp reduction in United States demand for uranium and the consequent stretching out of contracts with Canadian suppliers caused a steady reduction in uranium exports from their 1959 peak. To illustrate the growth in exports of various commodities since the late 1950's, a table showing the changes by commodity groupings from 1959 to 1963 appears on the following page.

MERCHANDISE EXPORTS - BY COMMODITY

	Amount (millions of dollars)			Per cent Increase 1959-63
	1959	1963	Increase 1959-63	
Farm and fish products				
Wheat and flour.....	507	849	342	67
Other.....	583	615	32	5
Total.....	1,090	1,464	374	34
Non-farm products				
Forest products				
Softwood lumber.....	301	427	126	
Wood pulp.....	311	405	94	
Newsprint.....	723	760	37	
Other.....	176	232	56	
Total.....	1,511	1,824	313	21
Metals and minerals				
Iron ore.....	158	271	113	
Primary iron and steel.....	129	197	68	
Aluminum and products.....	232	316	84	
Copper, nickel and products.....	393	530	137	
Lead, zinc and products.....	81	83	2	
Crude petroleum and natural gas.....	92	310	218	
Uranium ores and concentrates.....	312	138	-174	
Other.....	260	325	65	
Total.....	1,657	2,169	512	31
Chemicals and fertilizers.....	202	268	66	33
Other manufactured goods and miscellaneous				
Alcoholic beverages.....	83	94	11	
Textiles.....	23	63	40	
Farm implements and parts.....	115	117	2	
Non-farm machinery and parts.....	48	149	101	
Automobiles and trucks.....	19	34	15	
Automobile and truck parts.....	17	61	44	
Electrical apparatus.....	33	86	53	
Aircraft and parts.....	50	108	58	
Railway rolling stock and parts.....	2	29	27	
Other.....	174	333	159	
Total.....	564	1,073	509	90
Re-exports.....	118	182	64	54
Total non-farm products.....	4,050	5,516	1,466	36
Total*.....	5,140	6,980	1,840	36

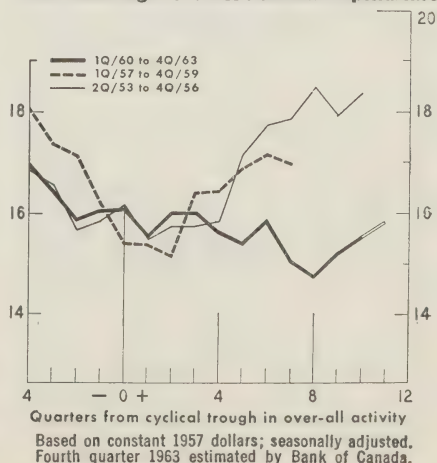
*Trade of Canada basis. Totals differ from those used in the balance of payments mainly because of adjustments for the timing of wheat shipments and prepayments for aircraft.

In addition to these influences affecting particular commodities, some important general factors have been at work. In the first place the devaluation of the Canadian dollar improved the competitive position of Canadian industry. Since domestic price increases have been as moderate as those in the United States and much smaller than those in most overseas countries, this improved position has been maintained. The increase in the size of domestic markets has permitted many Canadian producers to benefit from a larger and more efficient scale of operation and this has helped them to increase their share of the market. The favourable effects of these factors have been most evident in the case of manufacturing industries, enabling them to expand sales in foreign markets and to replace imports in domestic markets for a wide variety of products including electrical appliances, steel products, automobiles and some textile products. Exports of manufactured goods also benefitted from improved access to certain industrial markets overseas after the restoration of currency convertibility, and from the Government's expanded programme of export financing and trade promotion. On the other hand, the relatively slow growth in the volume of imports of machinery and equipment in recent years appears to have been attributable less to import substitution than to the slow rate of growth in Canadian investment outlays on such goods.

The combined effect of these various factors is illustrated by the charts on pages 42 and 43 which show the rapid growth in exports of manufactured goods and the relatively modest rates of increase in several important categories of imports. As indicated in the inset chart the general behaviour of imports to date in this business expansion has been in marked contrast to the two previous expansions when the share of imports in total national expenditure rose appreciably. Even after recovering from a substantial intervening decline, this ratio was still no higher in the fourth quarter of 1963 than in early 1961 when the present period of business expansion began.

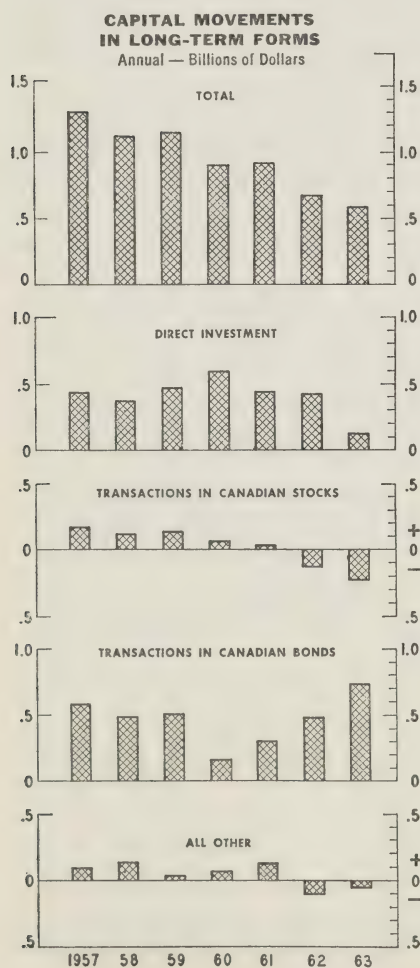
The check to growth in the non-merchandise trade deficit which became evident as early as 1960 occurred despite continuing increases in payments of interest and for business services. Dividend payments to non-residents increased only very slightly from 1961 until late in 1963 although total business profits

VOLUME OF MERCHANDISE IMPORTS
As a Percentage of Gross National Expenditure



after taxes continued to rise. The one area of non-merchandise transactions to show pronounced improvement in recent years has been the balance on travel account which, after being in deficit by more than \$200 million in 1959 and 1960, recorded a small surplus in 1963. This improvement was confined to the travel account with the United States and resulted from a more rapid rate of increase in receipts from American travellers in Canada beginning in 1961 and a decline in 1962 and 1963 in expenditures by Canadian visitors to the United States. These developments reflected both the 1960-62 decline in the external value of the Canadian dollar and the reduction in the duty-free allowance granted

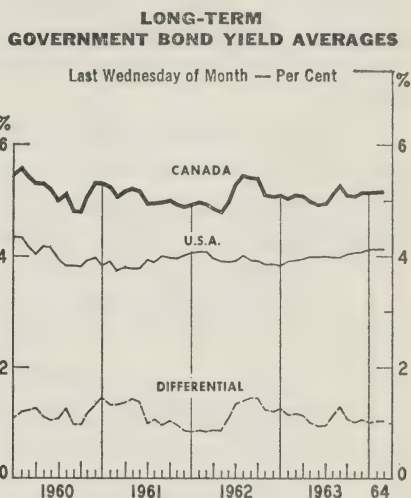
to returning Canadian tourists after mid-1962.



The counterpart in the capital account to the substantial reduction in the current account deficit was mainly a reduction of capital inflows in longer-term forms. These inflows, which exceeded \$1,300 million in 1956 and 1957, were reduced to \$584 million in 1963. Net direct investment in Canada fell from a peak of \$600 million in 1960 to \$130 million in 1963, as a result of a reduction both in the financing of new investment and in take-overs of existing enterprises. After 1961 there was a swing in transactions in Canadian stocks from net sales to non-residents to net repurchases by Canadians. Net sales of Canadian bonds to non-residents, which had averaged more than \$500 million from 1956 to 1959, and had dropped to less than \$200 million in 1960, amounted to \$737 million in 1963. In 1962 and 1963, in contrast with most earlier years, the greater part of the long-term capital inflow into Canada was in the form of debt obligations rather than equities.

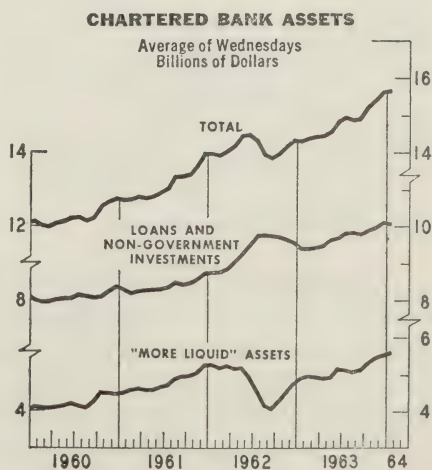
Monetary and Financial Developments

Credit conditions in Canada were not much different at the end of 1963 from what they had been a year earlier. In the first half of the year there was a moderate decline in market interest rates, both short-term and long-term. This was reversed during the summer months, but yields fell again in September and



then rose gradually during the final months of the year. Since interest rates in the United States rose moderately during the course of the year, the spread between U.S. and Canadian rates narrowed appreciably.

Chartered bank assets* increased by \$1,350 million or 9½ per cent in 1963 compared with only 2½ per cent in 1962 when their growth had been interrupted by the exchange crisis. In the latter part of 1962, in the face of a rather weak demand for loans, the resumption of growth had taken the form of a rapid rebuilding by the banks of their holdings of Government securities and other liquid assets. However, bank loans (seasonally adjusted) began



* For details of chartered bank assets see Appendices on pages 70 and 71.

to rise again in the first half of 1963 and increased strongly in the second half of the year.

Personal loans, which have been rising rapidly in recent years, were the most dynamic element in the increase in bank loans. After a pause in the latter part of 1962 they resumed their rise at year-end and this continued with increasing momentum through 1963; over the calendar year, the total increase amounted to about \$270 million or 17 per cent and accounted for about half of the expansion in chartered bank loans. Unsecured personal loans, including instalment loans for the purchase of new automobiles, showed a particularly strong increase.

Business loans (seasonally adjusted) tended to decline until July but in the second half of the year they rose at an average rate of 19 per cent per annum. The way in which business demand for bank credit developed over the course of the year seems to have been related at least in part to the pattern of business

inventory change; another factor appears to have been an expansion of bank lending in the field of real estate development and pre-mortgage financing of construction.

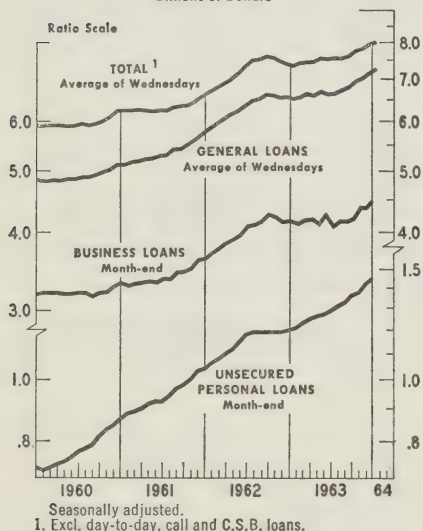
Loans to farmers, which rose by 14 per cent, also contributed to the strength of bank loans in 1963. Loans to grain dealers and exporters fell sharply in the second half of 1963 to the lowest level in many years, reflecting the heavy cash sales of grain for export.

Bank loans to municipal governments rose by 23 per cent over the year; if net purchases by the banks of municipal bonds are included, total bank credit extended to municipalities increased by \$90 million in 1963.

In addition to accommodating the increase of \$520 million in their total Canadian loans during 1963 the banks were able to add substantially to their holdings of Government securities and other "more liquid" assets (i.e. loans to investment dealers and stock brokers, net foreign assets and cash reserves). They increased their holdings of Government securities by \$650 million in 1963 and this brought such holdings back above the pre-exchange crisis peak of March

CHARTERED BANK LOANS

Billions of Dollars

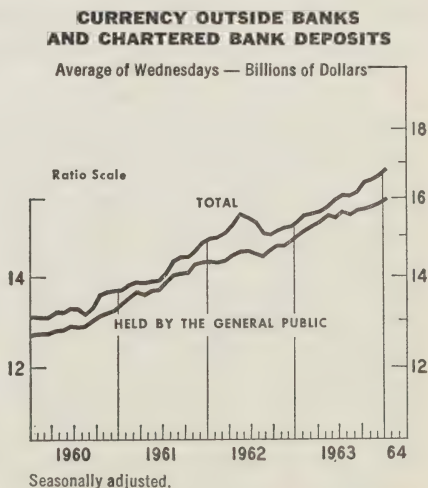
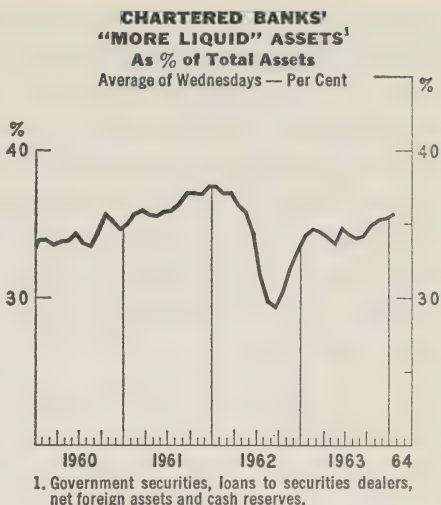


1962. They also added about \$100 million to their net foreign assets. Day-to-day and call loans were not much different at the end of 1963 from their level a year earlier. By December, the banks' "more liquid" assets constituted 35½ per cent of their total assets compared with 33 per cent a year earlier and a low point of 29½ per cent in September 1962 in the aftermath of the exchange crisis.

The ratio of cash reserves, treasury bills and day-to-day loans to Canadian dollar deposit liabilities was 18.3 per cent in December 1963 compared with 18.1 per cent a year earlier and 15.5 per cent in July 1962, the exchange crisis low.

Corresponding to the growth in chartered bank assets, Canadian dollar deposits increased substantially in 1963. About \$420 million of the year's increase represented a build-up in the Government's cash balances and so did not add to private liquidity. Corporate and institutional notice deposits rose by \$220 million, personal savings deposits by \$520 million, and demand deposits by nearly \$150 million. The over-all increase during 1963 in currency and bank deposits held by the general public was \$960 million or 6½ per cent; including Government deposit balances, the increase was \$1,380 million or 9 per cent. In 1962 the corresponding increases had been 4 per cent and 3 per cent respectively. Details of currency outside banks and chartered bank deposits are referred to in the Appendix on page 72.

The growth of the chartered banking system during the year was accompanied by continued rapid growth of other credit institutions. Trust company assets rose by 19 per cent, about the same as in 1962, with a particularly large



increase of 29 per cent in mortgage loans outstanding. Deposits and demand certificates issued by trust companies increased by 31 per cent and deposit receipts and guaranteed certificates by 12 per cent. Mortgage loan companies experienced an increase of over 15 per cent in their total assets, most of which consist of mortgage loans and are financed through the issue of short and mid-term debentures. The increase in the assets of sales finance and consumer loan companies in 1963 amounted to 16 per cent; these companies' loans to business enterprises rose much more rapidly than their loans to consumers. There was a further substantial increase in finance company borrowing through the issue of short-term paper.

Developments during 1963 may usefully be viewed in the longer-term perspective of trends in bank assets and private liquidity over the past four years since the January 1960 business-cycle peak.

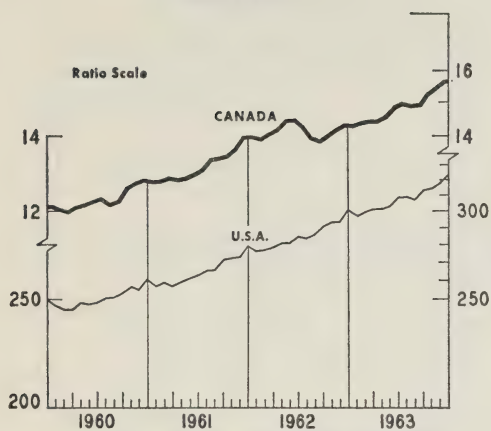
Broadly speaking, the course of banking developments in Canada in 1963 represented a return to the trends which had been in evidence earlier in the current economic expansion prior to the disturbances associated with the 1962 exchange crisis. There was a sharp but temporary reduction in chartered bank liquidity in the summer of 1962, a similar interruption in the generally rising trend of bank assets and, to a lesser degree, an interruption in the growth of general public holdings of currency and bank deposits. There was also a hump in the rising trend of chartered bank loans.

Over the four-year period from January 1960 to January 1964 chartered bank assets have risen at an average annual rate of about 6½ per cent and general public holdings of currency and bank deposits have risen at an average annual rate of about 6 per cent. The chartered banks' holdings of Government securities and other liquid assets have grown by somewhat larger percentages than their loans and other investments and now constitute a slightly larger proportion of their total assets than they did in January 1960. The most rapidly expanding categories of bank credit during the period have been unsecured personal loans, farm loans and business loans, which have increased at average annual rates of 19, 13 and 9 per cent respectively while total Canadian loans have risen at an average annual rate of 8 per cent. The growth in bank credit to provinces and municipalities and to individuals on the security of marketable bonds and stocks has been slower. In some other areas of bank credit, including National Housing Act insured mortgage loans, investments in corporate securities, loans to grain dealers and loans to instalment finance companies, the

CANADA AND UNITED STATES BANKING COMPARISONS¹

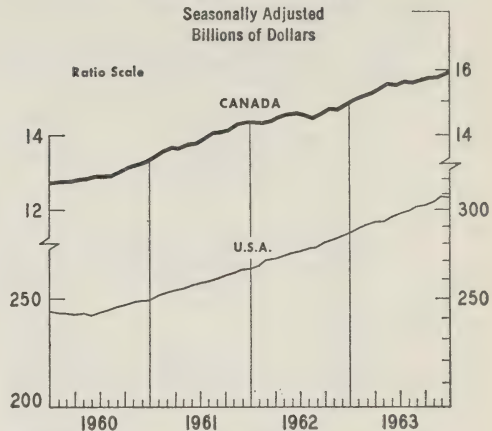
BANK ASSETS

Billions of Dollars



GENERAL PUBLIC HOLDINGS OF CURRENCY AND BANK DEPOSITS

Seasonally Adjusted
Billions of Dollars



¹ Canada: Chartered banks, monthly average of Wednesdays. U.S.A.: Commercial and mutual savings banks, last Wednesday of each month.

amounts currently outstanding are appreciably smaller than they were four years ago.

A comparison of recent banking trends in Canada with those in the United States, as shown in the charts above, indicates that rates of growth over the past four years in total bank assets and in general public holdings of currency and bank deposits (including savings and time deposits) have been broadly similar in the two countries.

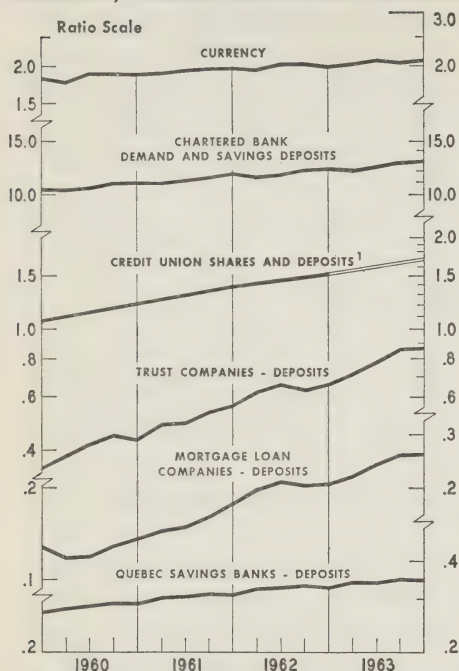
The changes over the past four years in some of the main types of liquid assets held by the general public in Canada (i.e. excluding the banking system and the Government) are compared in the charts and table below. It will be observed from the charts that there have been wide variations in the percentage rates of growth of the different types of assets, as shown by the varying slopes of the lines. Thus, within the group of assets usually regarded as part of the stock of the general public's money holdings in Canada, currency has increased since end-1959 at an average rate of only about 3½ per cent per annum and demand and personal savings deposits at chartered banks at about 5½ per cent per annum, while notice and term deposits at chartered banks (held by business corporations, institutions, etc.) have increased at an average rate of over 20 per cent per annum.

Many of the liquid asset instruments issued by non-bank financial institutions and not usually regarded as part of the stock of money in Canada are in fact not unlike chartered bank deposits from the point of view of the holder; some

GENERAL PUBLIC HOLDINGS OF LIQUID ASSETS

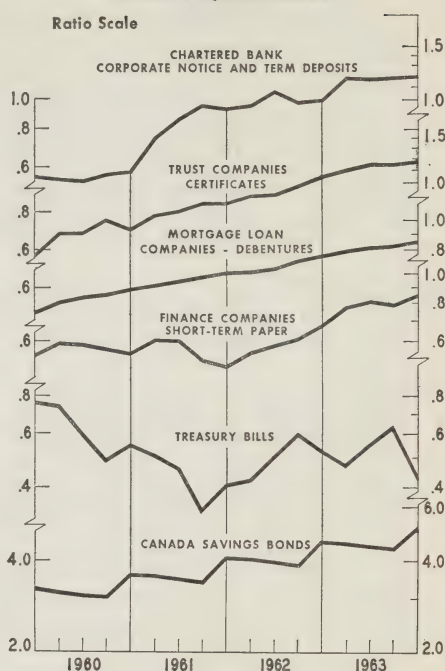
Billions of Dollars

CURRENCY, DEMAND AND SAVINGS DEPOSITS



1. Annual figures; 1963 figure estimated.

OTHER LIQUID ASSETS



of these have shown strikingly large percentage increases over the past four years. This has been the case both with the demand and personal savings accounts maintained at these institutions and with the instruments that the institutions provide for the short-term investment of funds, such as term deposits, notes, certificates and debentures.

Another important component of private liquid asset holdings which has grown rapidly over the past four years has been Canada Savings Bonds; on the other hand there has been a substantial decline in non-bank holdings of Government treasury bills over the period.

It will be seen from the table below that the average rate of growth of liquid asset holdings depends to some extent on how inclusive is the definition of the "liquid assets" being measured. Certain types of liquid assets are not included in the table, for example, short-term securities of provincial governments, short-term paper issued by non-financial corporations, and foreign currency deposits.

GENERAL PUBLIC HOLDINGS OF CERTAIN LIQUID ASSETS

(billions of dollars)

	<u>End-1959</u>	<u>End-1963</u>	<u>Average annual percentage increase</u>
Currency outside banks.....	1.8	2.1	
Chartered bank demand and personal savings deposits.....	10.4	12.9	
Sub-total.....	12.2	15.0	5 %
Quebec savings bank deposits.....	0.3	0.3	
Government savings institutions' deposits.....	0.2	0.2*	
Credit union deposits and shares.....	1.1	1.7*	
Trust company deposits and demand certificates.	0.3	0.9	
Mortgage loan company deposits and demand certificates.....	0.1	0.3	
Sub-total.....	14.2	18.3	6½%
Chartered bank notice and term deposits.....	0.6	1.2	
Trust company investment certificates.....	0.6	1.2	
Mortgage loan company debentures.....	0.5	0.8	
Finance company short-term notes.....	0.5	0.8	
Sub-total.....	16.4	22.4	8 %
Canada Savings Bonds.....	3.2	5.1	
Government of Canada treasury bills.....	0.8	0.4	
Government of Canada market bonds under 3 years to maturity.....	1.9	1.8	
TOTAL.....	22.3	29.7	7½%

*Estimated.

BANK OF CANADA OPERATIONS. In the early months of 1963 long-term capital inflows from abroad developed on a scale which was sufficient to cover the current account balance of payments deficit through its period of seasonal weakness and central bank operations were directed towards encouraging some further easing of credit conditions. At times there was evidence of weakness in the Government bond market, and in addition to its ordinary operations in treasury bills and short-term bonds the Bank of Canada was an intermittent purchaser of long-term issues on a modest scale.

During April the market turned strong and the Bank, while continuing its policy of easing credit conditions, cushioned a rapid rise in the prices of long-term bonds by selling on a considerable scale.

On May 6 the Bank Rate was reduced to $3\frac{1}{2}$ per cent and the following statement was issued:

"The Governor of the Bank of Canada, Louis Rasminsky, announced today that the Bank Rate had been reduced to $3\frac{1}{2}$ per cent.

He recalled that the Bank Rate had been fixed at 6 per cent last June at the time of the exchange emergency and had been lowered to $5\frac{1}{2}$ per cent in September, to 5 per cent in October and to 4 per cent in November.

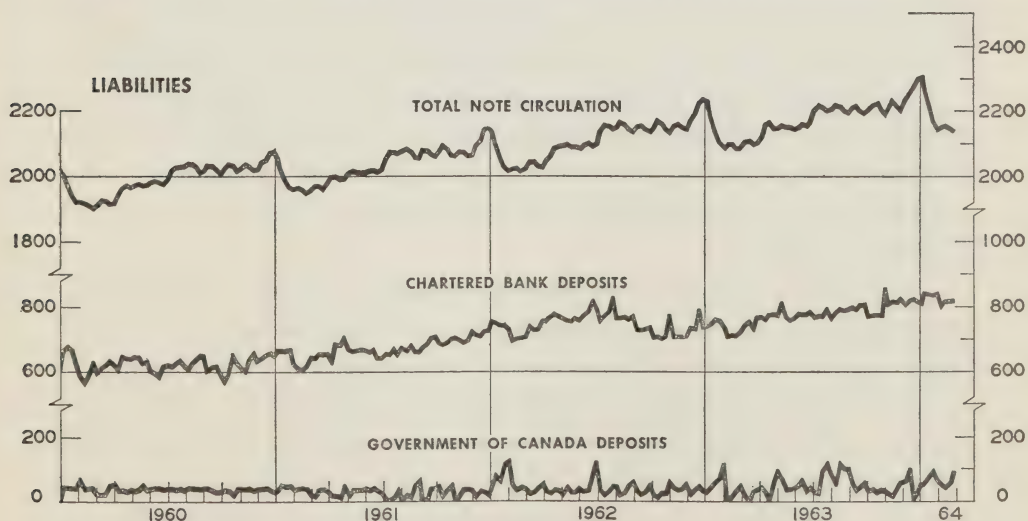
The Governor noted that during the past six months there had been an improvement in Canada's current balance of international payments, and that the exchange reserve position had developed in a satisfactory way. He said that although the balance of payments still required careful attention it was appropriate in present circumstances for the central bank to continue to encourage credit conditions that facilitate sound domestic economic expansion."

After mid-May and particularly after mid-June conditions in the Government securities market shifted again and the Bank was at times a buyer of long-term issues. With further weakness developing in the bond market in the first two weeks of July as a result of growing expectations of a rise in United States interest rates, the Bank was an active buyer; on July 17 the Federal Reserve Bank of New York raised its discount rate from 3 to $3\frac{1}{2}$ per cent.

On July 18 the U.S. Administration announced its proposal for an interest equalization tax on foreign securities sales. There was a sharp drop in Canadian bond prices, but a resistance level was reached on the following day with little Bank of Canada intervention in the long end. Following the announcement on July 21 that the proposed legislation would provide authority for the exemption

BANK OF CANADA ACCOUNTS

Wednesdays — Millions of Dollars



1. Breaks reflect special currency arrangements with other central banks.

2. Securities purchased from money market dealers under resale agreements.

of new issues of Canadian securities bond prices temporarily recovered most of the loss. In early August, however, long and short-term interest rates began to rise again. The Bank of Canada offered resistance to this pressure but uncertainty regarding the viability of the situation increased and on August 11 a rise in the Bank Rate was announced in the following terms:

"The Bank of Canada announced today that the Bank Rate, which had been $3\frac{1}{2}$ per cent since May 6, has been increased to 4 per cent effective immediately.

In announcing the change, the Governor of the Bank described it as a technical adjustment related to the increased uncertainty and upward pressure on interest rates which had developed in Canadian securities markets during the past few weeks. He emphasized that the change was not intended to signal a basic alteration in the Bank's monetary policy. The Bank continues to aim at promoting credit conditions which will encourage economic expansion while helping to maintain international balance. The change announced today should not restrict the availability of credit in Canada and it should help to maintain Canada's international payments position without having adverse effects on the balance of payments of other countries."

From August 11 to the end of the year the Bank was inactive in the long-term end of the market. Long-term yields rose gradually until mid-September, fell sharply on news of the large grain sales to the U.S.S.R., and then rose through to end-year in line with the gradual firming of yields in the U.S. market.

In connection with its cash management operations in 1963, the Bank of Canada sold to the Securities Investment Account of the Government \$50 million of treasury bills for delivery on February 1 and repurchase on March 1. This offset the effects on cash reserves of seasonal changes in statutory till money in February and March.

In 1963 a technique new in Canada was used to help deal with the sharp seasonal rise and fall in note circulation over the Christmas season. This arrangement took the form of purchases in early December of \$45 million of securities from investment dealers under resale arrangements maturing in early January. The contracts involved with dealers were similar to ordinary purchase and resale agreements except that they were subject to a fixed resale date and carried a special interest charge lower than the Bank's Money Market Rate.

Beginning at the end of October the net earnings of the Bank of Canada for 1963 were transferred to the Receiver General of Canada in several instalments totalling \$116.4 million. These transfers and the subsequent redeposit in Government accounts with the chartered banks offset most of the effect on cash reserves of the usual sharp seasonal rise in note circulation.

The assets and liabilities of the Bank of Canada at December 31, 1963, together with comparative figures for December 31, 1962 are set forth in the balance sheet at the end of this Report. (A table giving the composition of Bank of Canada note liabilities appears in the Appendix on page 80.) The monthly figures for chartered bank cash reserves and cash reserve requirements are shown in the Appendix on page 78. Bank of Canada advances to banks were outstanding on 20 business days during 1963 compared with 37 days in 1962; the maximum amount outstanding on any one day was \$15 million and the daily average for the year was \$0.4 million compared with \$3 million in 1962. Excluding the special purchase and resale agreements mentioned earlier, the Bank of Canada held securities purchased from money market dealers under resale agreements on 37 business days in 1963 compared with 50 days in the previous year; the maximum amount outstanding on any one day was \$107 million and the daily average for the year was \$2 million compared with \$3 million in 1962.

As mentioned in last year's Report, the \$250 million reciprocal currency arrangement between the Bank of Canada and the Federal Reserve Bank of New York was placed on a stand-by basis at the end of 1962. This arrangement was temporarily activated on the initiative of the Federal Reserve at the time of President Kennedy's assassination, and Canadian funds equivalent to U.S. \$20 million were drawn under the stand-by for use in counteracting speculative pressures in the exchange market. The transaction was reversed in mid-December.

CAPITAL MARKET SUMMARY. Continued economic expansion in Canada in 1963 was accompanied by a moderately strong demand for funds in credit markets. Estimates of the amount of new funds raised from financial institutions and capital markets in each of the past three years are shown in the table below. The total in 1963 was about the same as in each of the two preceding years. The growth in consumer debt outstanding in 1963 was moderately larger than in 1962, as was the increase in government debt; on the other hand, the amount of new funds raised by non-financial business was down from the unusually high level recorded in 1962.

**FUNDS RAISED BY NON-FINANCIAL BUSINESS,
INDIVIDUALS AND GOVERNMENTS**

(billions of dollars)

	<u>1961</u>	<u>1962</u>	<u>1963⁽¹⁾</u>
Non-financial business:			
Bonds.....	0.2	0.3	0.4
Stocks.....	0.2 ⁽²⁾	0.3	-0.1 ⁽²⁾
Bank and other loans (ex. mortgages).....	0.3	0.8	0.5
Direct investment inflow (net).....	0.4	0.4	0.1
	<u>1.2⁽²⁾</u>	<u>1.8</u>	<u>0.9⁽²⁾</u>
Mortgage debt ⁽³⁾	1.3	1.3	1.3
Personal loans and instalment debt ⁽⁴⁾	0.4	0.5	0.6
Provincial and municipal securities and bank loans....	1.1 ⁽⁴⁾	0.9	1.2 ⁽²⁾
Government of Canada securities ⁽⁵⁾	1.1	0.8	1.0
Total.....	<u>5.1</u>	<u>5.3</u>	<u>5.1</u>

(1) Partly estimated.

(2) Affected by financing connected with the purchase of private utilities by provinces. Excluding the effects of retirements of stocks of the utilities concerned, the amounts raised by non-financial business would be \$1.4 billion in 1961 and \$1.3 billion in 1963, while amounts raised by provincial and municipal governments would be reduced to \$0.9 billion in both years.

(3) Funds advanced by C.M.H.C., other financial institutions, estate and trust funds, other Government agencies and corporate lenders; excludes funds advanced by individuals and unincorporated business.

(4) Includes a small amount of funds raised by religious organizations and other non-profit institutions.

(5) Held outside Government accounts.

The net increase in each of the past three years in various types of securities and loan obligations held by financial institutions is shown on the facing page. It will be seen that these institutions added considerably more to their aggregate holdings in 1963 than in 1962. In contrast to the net reduction of \$0.3 billion in their holdings of Government securities in 1962, there was a net increase of \$0.8 billion in 1963. Their net investment in mortgage loans was also somewhat higher in 1963 but in business loans it was appreciably lower.

INCREASE IN ASSETS OF FINANCIAL INSTITUTIONS⁽¹⁾

(billions of dollars)

	<u>1961</u>	<u>1962</u>	<u>1963⁽²⁾</u>
Government of Canada securities.....	0.8	—0.3	0.8
Other bonds and stocks.....	0.9	0.7	0.7
Personal loans and instalment debt.....	0.3	0.5	0.5
Business loans.....	0.3	0.7	0.5
Mortgage loans.....	0.8	0.9	1.0
Other ⁽³⁾	0.1	0.4	0.2
	<hr/>	<hr/>	<hr/>
Total.....	3.2	2.8	3.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(1) Includes Bank of Canada, chartered banks, Quebec savings banks, Industrial Development Bank, trust companies, mortgage loan companies, sales finance and consumer loan companies, life insurance companies (assets held in Canada), fraternal benefit societies, credit unions, trustee pension plans, deposits at Government savings institutions and mortgage lending by Central Mortgage and Housing Corporation. Assets exclude investment in subsidiary companies and real estate.

(2) Partly estimated.

(3) Includes currency and deposits; loans to financial institutions, provinces, municipalities, religious and other non-profit institutions; day and call loans, holdings of I.D.B. bonds and finance company paper, and foreign currency deposits and securities.

The sharp increase in 1963 in the flow of funds from financial institutions to the non-financial sectors of the economy was of course matched by a corresponding increase in the flow of financial savings to these institutions. The form which these savings took is shown below. It will be seen that the greater part of the \$1.0 billion increase in the flow of savings to financial institutions in 1963 was into chartered bank deposits, which had risen by an abnormally small amount in 1962.

INCREASE IN LIABILITIES OF FINANCIAL INSTITUTIONS⁽¹⁾

(billions of dollars)

	<u>1961</u>	<u>1962</u>	<u>1963⁽²⁾</u>
Currency outside banks.....	0.1	—	0.1
Deposits at chartered banks.....	1.2	0.5	1.3
Deposits at other financial institutions ⁽³⁾	0.4	0.3	0.5
Other short-term obligations of financial institutions ⁽⁴⁾ ..	0.2	0.6	0.5
Bonds and stocks.....	0.1	0.1	0.2
Life insurance and pension reserves ⁽⁵⁾	1.0	1.1	1.1
Other ⁽⁶⁾	0.3	0.1	0.1
	<hr/>	<hr/>	<hr/>
Total.....	3.2	2.7	3.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(1) Excludes amounts owing to parent companies, capital stock and surplus.

(2) Partly estimated.

(3) Includes credit union shares.

(4) Includes loans, trust company certificates, mortgage loan company debentures and finance company paper.

(5) Based on total assets of trustee pension plans and insurance companies after deducting capital stock and retained earnings.

(6) Chartered bank holdings of currency, Bank of Canada deposits and Government equity in C.M.H.C.

The following table shows the net changes in the holdings of all types of financial assets (not only those which represent obligations of financial institutions, which are covered by the previous two tables) of individuals, non-financial business, provincial and municipal governments during the past three years. It will be seen that the net increase in such assets was about the same in 1963 as in

**INCREASE IN FINANCIAL ASSETS OF PRIVATE
DOMESTIC NON-FINANCIAL SECTORS⁽¹⁾**

(billions of dollars)

	<u>1961</u>	<u>1962</u>	<u>1963⁽²⁾</u>
Currency and deposits.....	1.5	0.8	1.4
Other short-term liabilities of financial institutions ⁽³⁾	0.2	0.4	0.4
Foreign currency deposits and securities.....	-0.1	-	0.2
Government of Canada securities			
Canada Savings Bonds.....	0.5	0.5	0.5
Market issues.....	-0.2	0.4	-0.5
Other Canadian securities.....	0.5	0.7	0.5
Less: bank loans to investment dealers and brokers and C.S.B. loans.....	-	-0.1	0.1
Loans ⁽⁴⁾	0.5	0.4	0.4
Life insurance and pension savings.....	1.0	1.1	1.1
Total.....	<u>3.8</u>	<u>4.2</u>	<u>4.2</u>

(1) Includes non-financial business, individuals, provincial and municipal governments.

(2) Partly estimated.

(3) Includes holdings of trust company certificates, mortgage loan company debentures and finance company paper.

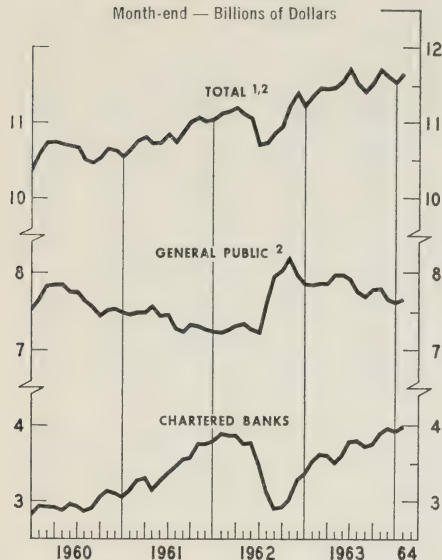
(4) Mortgage loans advanced by non-financial corporate lenders, estate and trust funds, and government agencies other than C.M.H.C.; and credit extended to consumers by retail dealers.

1962. There was however a substantial change in the composition of private holdings of financial assets in Canada in 1963 as market issues of Government securities which had been added to holdings in 1962 moved back into the hands of the banks and other financial institutions in exchange for deposit claims on these institutions.

Capital flows between Canadians and non-residents in 1963 are discussed in detail on pages 45 to 49. On balance, the Canadian economy continued to reduce its reliance on non-resident savings in 1963. The absorption by non-residents of new issues of Canadian securities—especially foreign-pay issues—

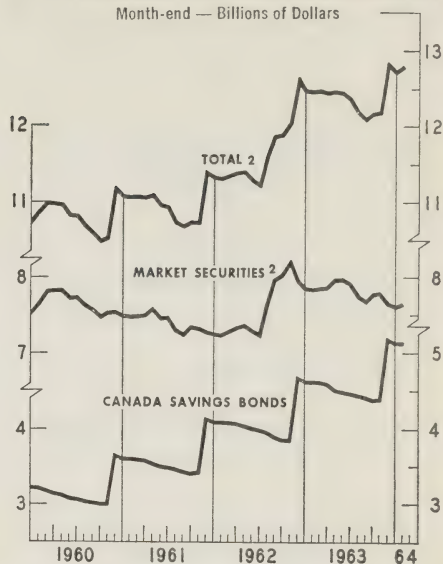
DISTRIBUTION OF GOVERNMENT OF CANADA MARKET SECURITIES

Month-end — Billions of Dollars



GENERAL PUBLIC HOLDINGS OF GOVERNMENT OF CANADA SECURITIES

Month-end — Billions of Dollars



1. Excludes holdings of Government accounts and Bank of Canada.

2. Excludes securities involved in special currency arrangements between the Bank of Canada and other central banks; includes holdings of non-bank financial institutions and non-residents.

was unusually large in 1963 but it was heavily concentrated in the first half of the year. The increase in net new issues sold abroad was more than offset by a decline in net direct investment inflows.

Although the Government borrowed more money in 1963 than in 1962 its cash balances showed a large increase and its net use of funds declined from \$806 million to \$630 million. A summary of the Government of Canada's financing operations in 1963 is given in the following table. A table summarizing the details of new issues and retirements of Government of Canada direct market securities in 1963 appears in the Appendix on page 73. Tables summarizing the distribution of holdings of Government securities and the classification by term to maturity of the total outstanding and the portion held by the general public appear in the Appendices on pages 74 and 75.

SUMMARY OF GOVERNMENT OF CANADA FINANCING

(millions of dollars)

	<u>1962</u>	<u>1963</u>				
		<u>Total</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
Market bonds: Gross new issues ⁽¹⁾	1,585 ⁽²⁾	2,126 ⁽²⁾	485 ⁽²⁾	750	—	891
Retirements ⁽¹⁾	1,393	1,740	353	588	18	781
Net new issues	192	386	132	162	—18	110
Treasury bills: Net new issues	280	75	—	180	—100	—5
Canada Savings Bonds: Net new issues...	540	514	—32	—124	—79	748
Total net new issues ⁽³⁾	1,012	975	100	217	—197	854
Deduct: Net purchases of market securities by Government accounts ⁽⁴⁾	225	—7	—	—14	—6	13
Sub-total: (Equals increase in Government securities held outside Government accounts)	787	982	100	231	—191	841
Deduct: Increase in Canadian dollar bank deposits	—19	352	—247	137	—244	706
Sub-total: (Equals total cash requirements as per text on pages 66 and 67)	806	630	347	94	53	136
Deduct: Increase in advances to the Exchange Fund Account ⁽⁵⁾	147	122	82	90	—63	13
Funds used for all other purposes (net)	659	508	265	4	116	123

(1) Includes C.N.R. guaranteed bonds.

(2) Includes \$135 million (the equivalent of U.S. \$125 million) of securities payable in United States currency.

(3) To obtain the change in the total amount of Government securities outstanding during 1963 it is necessary to deduct the net retirement of \$34 million of non-market bonds held by the Unemployment Insurance Fund and the cancellation of \$113 million of market bonds held in Government accounts, making a net increase of \$827 million in Government securities outstanding.

(4) Excluded from this amount are the items described in footnote (3) which involve no transfer of cash. The changes in Government account holdings may be summarized as follows:

	<u>1962</u>	<u>1963</u>
Net issue of non-market bonds to Unemployment Insurance Fund	—58	—34
Cancellation of market bonds	—142	—113
Net purchases of market securities by Government accounts	225	—7
Total change in Government account holdings	26	—154

(5) Excludes advances which were offset by changes in I.M.F. holdings of demand notes.

Appendix

APPENDIX

CHARTERED BANK ASSETS

(monthly average of Wednesdays — millions of dollars)

	Dec. 1963	Increase or decrease (—) during:					
		1Q	2Q	3Q	4Q	Year 1963	Year 1962
Bank of Canada notes and deposits.....	1,221	—16	39	32	16	71	43
Day-to-day loans.....	207	—76	50	—56	84	3	—14
Treasury bills.....	1,320	131	8	—102	119	155	—30
Government bonds.....	2,650	183	90	115	104	493	—459
Net foreign assets.....	14	37	—21	16	67	99	—54
Call loans.....	129	—35	22	—47	47	—13	20
Sub-total: "more liquid" assets	5,542	224	189	—43	437	808	—495
Loans to provinces.....	44	—31	14	3	15	2	—5
Loans to municipalities.....	304	51	—21	—2	28	57	10
Loans to grain dealers.....	186	—18	14	—52	—76	—132	—17
Canada Savings Bonds loans....	206	—66	—62	—53	178	—3	16
Loans to instalment finance companies.....	249	—32	17	—34	33	—15	17
General loans.....	7,086	—55	270	249	144	608	821
(Sub-total: loans).....	(8,075)	(—151)	(233)	(112)	(322)	(517)	(842)
Insured mortgages.....	891	15	—13	—6	—11	—15	—43
Provincial securities.....	391	11	1	—2	—18	—8	45
Municipal securities.....	287	6	16	4	7	33	21
Corporate securities.....	461	—2	13	—2	2	11	—14
Sub-total: "less liquid" assets	10,106	—121	249	107	302	537	851
Total assets.....	15,648	103	438	64	740	1,345	356
SEASONALLY ADJUSTED							
Total loans ⁽¹⁾	7,916	34	87	88	313		
General loans.....	7,150	71	6	180	357		
Business loans ⁽²⁾	4,484	32	—101	109	285		

(1) Excludes day-to-day, call and C.S.B. loans.

(2) Month-end figures.

CHARTERED BANKS **CLASSIFICATION OF LOANS**

(millions of dollars)

	As at Dec. 31 1963	Increase or decrease (—) during year:			
		1960	1961	1962	1963
Business loans					
Under authorizations of:					
less than \$100,000.....	1,374	85	135	127	49
\$100,000 to \$1 million.....	1,393	51	127	179	102
\$1 million to \$5 million.....	986	39	49	111	138
\$5 million and over.....	600	—39	—7	98	27
Total.....	4,354	136	303	515	316
Personal loans					
Fully secured by marketable					
bonds and stocks.....	392	4	49	36	20
Home improvement loans.....	72	—4	10	4	2
Other.....	1,432	138	173	153	249
Total.....	1,896	138	232	193	271
Loans to farmers.....	635	30	65	71	79
Loans to non-business institutions.....	234	26	14	18	8
Total general loans.....	7,119	331	615	798	674
Loans to provinces.....	48	89	—82	—17	19
Loans to municipalities.....	301	—14	30	—3	57
Loans to grain dealers and exporters.....	219	28	—115	—37	—91
Loans to instalment finance companies...	302	—38	—98	11	18
Total loans*.....	7,989	396	350	752	677

*Excludes day-to-day, call and C.S.E. loans.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS

(monthly average of Wednesdays — millions of dollars)

	<u>Dec. 1963</u>	Increase or decrease (—) during:					
		<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Year 1963</u>	<u>Year 1962</u>
Held by general public							
Currency outside banks							
Notes.....	1,859	— 84	39	40	58	53	70
Coin.....	196	—	8	7	6	21	20
Chartered bank deposits							
Personal savings.....	8,357	305	148	205	— 138	520	294
Corporate notice and term...	1,215	162	21	9	29	221	} 160
Other ⁽¹⁾⁽²⁾	4,241	— 268	240	83	89	145	
Total.....	15,867	115	457	344	44	960	542
Government of Canada deposits at chartered banks.....	994	— 82	2	— 233	733	421	— 97
Total currency and chartered bank deposits ⁽²⁾	16,861	33	459	111	777	1,380	446
SEASONALLY ADJUSTED							
Currency outside banks and chartered bank deposits ⁽²⁾							
Total.....	16,612	323	382	208	447		
Held by general public.....	15,851	343	258	173	184		

(1) Includes public demand deposits, deposits of provincial governments and deposits of foreign banks.

(2) Less Canadian dollar items in transit.

SUMMARY OF NEW ISSUES AND RETIREMENTS OF GOVERNMENT OF CANADA DIRECT MARKET BONDS, 1963⁽¹⁾

(par values, millions of dollars)

Date of Delivery or Retirement	Date of Offering of New Issues	New Issues			Retirements ⁽²⁾		
		Advance Allotment to Bank of Canada	Public Offering	Total	At Maturity	Refunding of Bank of Canada Holdings in Advance of Maturity	Total
Jan. 1		-	-	-	100	-	100
3	Sept. 1962	-	135 ⁽³⁾	135 ⁽³⁾	-	-	-
Feb. 1	Jan. 14	75	275	350	-	-	-
Apr. 1	Mar. 18	100	200	300	313	-	313
June 1	May 13	150	300	450	275	-	275
July 1		-	-	-	16	-	16
Oct. 1	Sept. 16	266	325	591	223	266	489
Dec. 15	Dec. 2	-	300	300	300	-	300
Various		-	-	-	1	-	1
Total		591	1,535	2,126	1,228	266	1,494

(1) Excludes guaranteed bonds of which \$250 million were retired on February 1, 1963.

(2) In addition to the retirements shown, a total of \$113 million of Government securities held by the Purchase Fund was cancelled on March 29.

(3) Canadian dollar equivalent of second half of U.S. \$250 million issue privately sold in New York in September 1962. The first half was delivered on October 15, 1962.

APPENDIX

GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES
DISTRIBUTION OF HOLDINGS

(par values, millions of dollars)

	As at Dec. 31 1963	Increase or decrease (—) during:					
		1963				Year 1963	Year 1962
		1Q	2Q	3Q	4Q		
Held Outside Government Accounts							
Bank of Canada							
Treasury bills.....	469	—86	64	—96	128	10	145
Other market issues.....	2,622	—18	46	150	—34	144	—85
Total.....	3,091	—104	110	55	94	155	60
Chartered Banks							
Treasury bills.....	1,291	145	46	—85	49	155	—25
Other market issues.....	2,642	79	150	54	125	408	—397
Total.....	3,933	224	195	—31	174	563	—422
General Public							
Treasury bills.....	430	—53	76	82	—198	—94	118
Other market issues.....	7,173	64	—25	—218	23	—156	491
Canada Savings Bonds.....	5,133	—32	—124	—79	748	514	540
Total.....	12,736	—20	—74	—214	573	264	1,149
Total							
Treasury bills.....	2,189	6	185	—99	—21	71	238
Other market issues.....	12,437	126	170	—13	114	397	9
Canada Savings Bonds.....	5,133	—32	—124	—79	748	514	540
Total.....	19,760	100	231	—191	841	982	787
Held In Government Accounts							
Unemployment Insurance Fund							
Non-market issues.....	66	—88	—12	29	37	—34	—58
Total.....	66	—88	—12	29	37	—34	—58
Securities Investment Account							
Treasury bills.....	35	—25	—	—	35	10	25
Other market issues.....	—	—	—	—	—	—	—41
Total.....	35	—25	—	—	35	10	—16
Purchase Fund							
Market issues.....	—	—113	—	—	—	—113	75
Total.....	—	—113	—	—	—	—113	75
Other Government Accounts							
Treasury bills.....	16	19	—5	—2	—19	—6	18
Other market issues.....	400	6	—9	—5	—4	—11	7
Total.....	415	25	—14	—6	—23	—17	24
Total							
Treasury bills.....	51	—6	—5	—2	16	4	42
Other market issues.....	400	—107	—9	—5	—4	—124	41
Non-market issues.....	66	—88	—12	29	37	—34	—58
Total.....	516	—201	—25	23	49	—154	26
Total Outstanding							
Treasury bills.....	2,240	—	180	—100	—5	75	280
Other market issues.....	12,837	19	162	—18	111	273	50
Canada Savings Bonds.....	5,133	—32	—124	—79	748	514	540
Other non-market issues....	66	—88	—12	29	37	—34	—58
Total.....	20,276	—101	206	—168	890	827	812

APPENDIX

**GOVERNMENT OF CANADA DIRECT AND GUARANTEED SECURITIES
CLASSIFIED BY TERM TO MATURITY**

(par values, millions of dollars)

	As at Dec. 31 1963	Increase or decrease (—) during:					
		1963				Year 1963	Year 1962
		1Q	2Q	3Q	4Q		
Total Amount Outstanding							
Treasury bills.....	2,240	—	180	—100	—5	75	280
Other market issues							
2 years and under.....	3,573	122	—63	1,248	—279	1,027	—639
Over 2 years and up to 5 years	2,183	125	489	—1,266	391	—261	—327
Over 5 years and up to 10 years	1,838	—270	—364	—	—	—634	1,494
Over 10 years.....	5,243	42	100	—	—2	140	—479
Total market issues							
(bonds and treasury bills)....	15,077	19	342	—118	106	348	330
Canada Savings Bonds.....	5,133	—32	—124	—79	748	514	540
Other non-market issues.....	66	—88	—12	29	37	—34	—58
Total.....	20,276	—101	206	—168	890	827	812
Average maturity of	7 yrs.	—1	—1	—2	—2	—6	+1
market issues.....	11 mo.	mo.	mo.	mo.	mo.	mo.	mo.
Amount Held by General Public							
Treasury bills.....	430	—53	76	82	—198	—94	118
Other market issues							
2 years and under.....	1,496	—7	—152	412	—53	201	—226
Over 2 years and up to 5 years	746	6	300	—513	91	—116	—91
Over 5 years and up to 10 years	1,008	—30	—279	—20	—	—329	852
Over 10 years.....	3,923	96	105	—97	—15	89	—46
Total market issues							
(bonds and treasury bills)....	7,602	12	50	—136	—175	—249	609
Canada Savings Bonds.....	5,133	—32	—124	—79	748	514	540
Total.....	12,736	—20	—74	—214	573	264	1,149
Average maturity of	10 yrs.	+2	+1	—4	—	—1	—1
market issues.....	8 mo.	mo.	mo.	mo.		mo.	mo.

NET NEW ISSUES OF SECURITIES ⁽¹⁾

(millions of dollars)

	Payable in Canadian Dollars Only				
	1959	1960	1961	1962	1963
Government of Canada securities⁽²⁾					
Total.....	871	613	944	705	709
Held in Government accounts.....	-206	-57	-165	26	-154
Held outside Government accounts.....	1,077	670	1,109	679	863
Provincial, municipal and corporate and other securities					
Provincial bonds ⁽²⁾	327	462	932 ⁽³⁾	595	625 ⁽⁴⁾
Municipal bonds ⁽²⁾	194	195	227	167	238
Corporate bonds.....	89	298	203	241	305
Other bonds ⁽⁵⁾	17	21	28	4	29
Total bonds.....	627	975	1,390	1,007	1,197
Finance company short-term paper ⁽⁶⁾	135	18	-28	117	149
Total bonds and short-term paper.....	762	993	1,362	1,124	1,346
Corporate stocks⁽⁷⁾					
Preferred.....	72	37	-63 ⁽⁸⁾	63	53 ⁽⁹⁾
Common.....	330	178	302 ⁽¹⁰⁾	269	-156 ⁽⁹⁾
Total corporate stocks.....	402	215	238	332	-102 ⁽⁹⁾
Total provincial, municipal and corporate and other securities.....	1,164	1,208	1,601	1,456	1,243
Total Government of Canada securities held outside Government accounts, provincial, municipal, and corporate and other securities.....					
	2,242	1,878	2,710	2,135	2,106

(1) Gross new issues less retirements.

(2) Includes guaranteed securities.

(3) Includes the new issue of \$104 million of bonds guaranteed by B.C. in exchange for preferred stock of B.C. Electric Co.

(4) Includes the new issue of \$53 million of bonds guaranteed by Quebec in exchange for preferred stock of Quebec hydro-electric utilities companies.

(5) Consists of bonds of religious and other institutions and Canadian dollar issues of the Commonwealth of Australia.

(6) Paper with an original term to maturity of one year or less.

(7) Canadian stock issues with dividends payable in U.S. dollars are shown under "Other Currencies".

(8) Includes the retirement of \$104 million of preferred stock referred to in footnote (3).

(9) Includes retirements of \$55 million of preferred stock and \$345 million of common stock of the Quebec utilities companies as well as the new issue of \$44 million of common shares in Shawinigan Industries Limited.

(10) After deducting the distribution of \$86 million to shareholders of B.C. Power Corp.

Payable in Other Currencies				
1959	1960	1961	1962	1963
-149	-1	-55	96	119
-129	-	-56	-	-
-19	-1	2	96	119
239	17	5	98	283
84	89	-19	22	-
14	13	118	174	244
-	-	-	2	-
338	119	104	296	527
-	-10	-24	62	26
338	109	80	357	553
-	-	-	-	-
2	5	10	6	1
2	5	10	6	1
339	113	90	363	554
320	113	92	459	672

Total				
1959	1960	1961	1962	1963
723	612	890	801	827
-335	-57	-221	26	-154
1,058	669	1,111	775	982
566	479	936 ⁽³⁾	693	908 ⁽⁴⁾
277	283	208	189	238
103	310	321	415	549
17	21	28	6	29
964	1,094	1,494	1,303	1,724
135	7	-51	179	174
1,100	1,102	1,443	1,482	1,898
72	37	-63 ⁽⁸⁾	63	53 ⁽⁹⁾
331	183	312 ⁽¹⁰⁾	274	-155 ⁽⁹⁾
404	220	248	337	-102 ⁽⁹⁾
1,503	1,322	1,691	1,819	1,796
2,561	1,991	2,802	2,594	2,778

APPENDIX

**CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS,
STATUTORY DEPOSITS AND CASH RESERVES**

(millions of dollars)

	Currency Outside Banks and Chartered Bank Deposits		
	Monthly Average of Wednesdays		
	<u>Total</u>	<u>Currency Outside Banks</u>	<u>Chartered Bank Deposits (excluding float)</u>
Annual Averages			
1960	13,293	1,762	11,531
1961	14,169	1,815	12,354
1962	15,206	1,897	13,310
1963	15,976	1,964	14,012
Monthly			
1962—Jan.....	14,973	1,835	13,138
Feb.....	14,907	1,825	13,082
Mar.....	15,062	1,829	13,232
Apr.....	15,229	1,860	13,369
May.....	15,499	1,883	13,616
June.....	15,509	1,878	13,631
July.....	15,397	1,928	13,469
Aug.....	15,076	1,938	13,138
Sept.....	14,968	1,926	13,042
Oct.....	15,128	1,943	13,185
Nov.....	15,286	1,931	13,354
Dec.....	15,481	1,981	13,499
1963—Jan.....	15,422	1,914	13,508
Feb.....	15,470	1,888	13,583
Mar.....	15,513	1,897	13,616
Apr.....	15,551	1,942	13,609
May.....	15,692	1,942	13,750
June.....	15,973	1,944	14,028
July.....	16,123	1,998	14,124
Aug.....	16,065	1,989	14,076
Sept.....	16,084	1,991	14,093
Oct.....	16,418	2,005	14,413
Nov.....	16,605	1,998	14,607
Dec.....	16,861	2,055	14,806

(1) Statutory basis, i.e., the average Canadian dollar deposit liabilities for each month are based on the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

(2) 8 per cent of gross statutory deposits as shown in preceding column.

(3) For each month the cash reserves are equal to the monthly average of the daily figures for chartered bank deposits at the Bank of Canada and the average of chartered bank holdings of Bank of Canada notes for the four consecutive Wednesdays ending with the second last Wednesday of the previous month.

Statutory Deposits⁽¹⁾

Average of Statutory Wednesdays

Chartered Bank Deposits (excluding float)	Float	Total Statutory Deposits	Minimum Cash Reserve Requirement⁽²⁾	Actual Cash Reserves⁽²⁾	Average Cash Reserve Ratio
					%
11,465	587	12,052	964	985	8.17
12,249	555	12,804	1,024	1,040	8.12
13,277	534	13,812	1,105	1,124	8.14
13,895	505	14,400	1,152	1,169	8.12
13,095	598	13,693	1,095	1,115	8.14
13,158	538	13,696	1,096	1,109	8.09
13,064	520	13,584	1,087	1,101	8.10
13,203	536	13,739	1,099	1,114	8.11
13,324	443	13,767	1,101	1,115	8.10
13,628	616	14,244	1,140	1,166	8.19
13,628	508	14,135	1,131	1,159	8.20
13,546	618	14,164	1,133	1,151	8.13
13,147	535	13,682	1,095	1,113	8.14
13,056	468	13,524	1,082	1,106	8.18
13,162	515	13,678	1,094	1,113	8.14
13,315	519	13,834	1,107	1,130	8.17
13,470	545	14,015	1,121	1,141	8.14
13,520	547	14,068	1,125	1,138	8.09
13,559	399	13,958	1,117	1,130	8.10
13,606	483	14,089	1,127	1,146	8.13
13,627	470	14,096	1,128	1,147	8.13
13,722	577	14,299	1,144	1,158	8.10
13,987	422	14,410	1,153	1,172	8.14
14,105	564	14,669	1,174	1,189	8.11
14,120	536	14,656	1,172	1,192	8.13
14,057	499	14,556	1,165	1,185	8.14
14,412	526	14,938	1,195	1,211	8.11
14,551	493	15,044	1,203	1,219	8.10

APPENDIX

BANK OF CANADA NOTE LIABILITIES

(as of December 31st — thousands of dollars)

Notes issued by the Bank of Canada	<u>1950</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
\$1.....	50,273	81,733	86,114	91,426	94,853
2.....	37,279	57,622	60,640	63,837	66,670
5.....	111,731	149,545	156,501	162,643	167,743
10.....	429,886	519,559	533,041	548,442	558,688
20.....	346,060	676,549	719,713	766,974	811,119
25.....	47	46	46	46	46
50.....	108,735	147,596	152,106	155,938	158,277
100.....	254,457	396,328	407,307	413,460	415,563
500.....	160	41	38	37	37
1,000.....	11,489	19,547	18,198	17,951	18,603
Total.....	<u>1,350,117</u>	<u>2,048,567</u>	<u>2,133,704</u>	<u>2,220,755</u>	<u>2,291,600</u>
Chartered Banks' notes*.....	12,487	8,423	8,363	8,314	8,291
Dominion of Canada notes*.....	4,702	4,638	4,637	4,637	4,637
Provincial notes*.....	28	28	28	28	28
Defunct banks' notes*.....	88	88	88	88	88
Total Bank of Canada note liabilities.....	<u>1,367,422</u>	<u>2,061,743</u>	<u>2,146,820</u>	<u>2,233,822</u>	<u>2,304,644</u>
Held by:					
Chartered banks.....	231,306	329,841	346,630	416,845	418,405
Others.....	<u>1,136,116</u>	<u>1,731,902</u>	<u>1,800,190</u>	<u>1,816,977</u>	<u>1,886,239</u>

*These are note issues which are in the process of being retired and the liability for them has been taken over by the Bank of Canada from the original issuers.

BANK OF CANADA STATEMENT OF INCOME AND EXPENSES

(thousands of dollars)

	<u>1963</u>	<u>1962</u>
Income		
On Investments.....	\$127,407	\$105,156
All other income.....	444	1,751
	<hr/>	<hr/>
Total income.....	\$127,851	\$106,907
	<hr/>	<hr/>
Operating Expenses		
Salaries ⁽¹⁾	\$ 4,034	\$ 3,679
Contributions to pension and insurance funds.....	352	325
Other staff expenses ⁽²⁾	196	182
Directors' fees.....	22	25
Auditors' fees and expenses.....	77	70
Taxes (inc. municipal and business).....	838	813
RCMP guards and electric protection.....	125	110
Insurance.....	93	90
Bank notes — production and shipment.....	3,637	3,051
Premises and equipment (net).....	441	353
Stationery and printing.....	151	173
Publications ⁽³⁾	73	67
Postage and express.....	128	148
Telephones and telegrams.....	157	173
Travel and transfer expense.....	154	109
Interest paid on unclaimed balances.....	58	53
All other expenses.....	95	68
	<hr/>	<hr/>
Total operating expenses.....	\$ 10,631	\$ 9,489
	<hr/>	<hr/>
Depreciation on Buildings and Equipment	834	738
	<hr/>	<hr/>
Net Income Paid to Receiver General of Canada	116,386	96,680
	<hr/>	<hr/>
	\$127,851	\$106,907
	<hr/>	<hr/>

(1) The number of staff averaged 893 in 1963 and 840 in 1962.

(2) Includes overtime pay, medical services and cafeteria expense.

(3) Printing of Statistical Summary and Annual Report.

BANK OF CANADA • STATEMENT

ASSETS

	<u>1963</u>	<u>1962</u>
Foreign exchange		
Pounds sterling and U.S.A. dollars.....	\$ 42,163,637	\$ 47,226,572
Other currencies.....	192,717	178,805
	<hr/> 42,356,354	<hr/> 47,405,377
Cheques on other banks.....	<hr/> 114,983,733	<hr/> 39,009,504
Accrued interest on investments.....	<hr/> 34,255,603	<hr/> 28,444,567
Bills bought in open market not including treasury bills....	<hr/> —	<hr/> 3,294,808
Investments — at amortized values		
Treasury bills of Canada.....	465,569,888	455,220,636
Other securities issued or guaranteed by Canada maturing within two years.....	687,994,239	446,559,216
Other securities issued or guaranteed by Canada not maturing within two years.....	1,881,661,679	1,980,762,718
Debentures issued by Industrial Development Bank.....	150,629,672	127,145,248
Other securities — U.S.A. Government.....	21,512,813	25,745,293
	<hr/> 3,207,368,291	<hr/> 3,035,433,111
Industrial Development Bank		
Total issued share capital at cost	<hr/> 33,000,000	<hr/> 31,000,000
Bank premises		
Land, buildings and equipment		
Cost less accumulated depreciation.....	<hr/> 11,804,192	<hr/> 10,681,591
Net balance of Government of Canada collections and payments in process of settlement.....	<hr/> —	<hr/> 35,224,593
Other assets.....	<hr/> 1,153,311	<hr/> 601,422
	<hr/> <hr/> \$3,444,921,484	<hr/> <hr/> \$3,231,094,973

L. RASMINSKY, Governor
Ottawa, January 29, 1964.

A. J. NORTON, Chief Accountant

OF ASSETS AND LIABILITIES

AS AT DECEMBER 31, 1963

(with comparative figures as at December 31, 1962)

LIABILITIES

	1963	1962
Capital paid up	\$ 5,000,000	\$ 5,000,000
Reserve fund	25,000,000	25,000,000
Notes in circulation	2,304,643,792	2,233,822,132
Deposits		
Government of Canada.....	49,397,853	42,890,041
Chartered banks.....	811,410,482	745,569,810
Other.....	38,925,892	38,075,970
	899,734,227	826,535,821
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada.....	43,271,091	48,431,106
To others.....	9,549,181	12,704,056
	52,820,272	61,135,162
Bank of Canada cheques outstanding	132,291,008	78,637,241
Net balance of Government of Canada collections and payments in process of settlement	23,764,349	—
Other liabilities	1,667,836	964,617
	<u>\$3,444,921,484</u>	<u>\$3,231,094,973</u>

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1963 and have received all the information and explanations we have required. We report that, in our opinion, the above statement correctly sets forth the position of the Bank at December 31, 1963 according to the best of our information and as shown by the books of the Bank.

T. C. Kinnear, F.C.A.
of Price Waterhouse & Co.

J. H. RENÉ de COTRET, C.A.
of René de Cotret, Ferron, Nobert & Cie.

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EX-OFFICIO

R. B. BRYCE	OTTAWA <i>Deputy Minister of Finance</i> <i>Member of the Executive Committee</i>
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R. B. MCKIBBIN, *Deputy Governor*

L. HÉBERT, *Deputy Governor*

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A. J. NORTON, *Chief Accountant*

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T. D. MACKAY, *Deputy Chief*

Public Debt Division: H. W. THOMPSON, *Chief*

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L. E. BARCLAY, *Industrial Research Assistant*

MISS H. COSTELLO, *Librarian*

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G. BRUNELLE, *Special Assistant*

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A. W. NOBLE, *Securities Officer*

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T. G. BOLAND, *Montreal Representative*

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A. C. LORD, *Assistant Chief*

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HALIFAX G. R. BONNER, *Agent*

MONTREAL J. E. R. ROCHEFORT, *Agent*
R. MARCOTTE, *Assistant Agent*

OTTAWA J. K. FERGUSON, *Agent*

REGINA J. F. SMITH, *Agent*

SAINT JOHN, N.B. L. G. ROWE, *Agent*

TORONTO R. J. LILLIE, *Agent*
D. D. NORWICH, *Assistant Agent*
J. C. FRASER, *Assistant Agent*

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WINNIPEG E. T. W. DAVIES, *Agent*



MAR 23 '65



BANK OF CANADA

**ANNUAL REPORT OF
THE GOVERNOR TO THE
MINISTER OF FINANCE**

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1964

THE LIBRARY
SCHOOL OF BUSINESS
UNIVERSITY OF TORONTO

BANK OF CANADA

Report of the Governor - 1964

The Canadian economy moved vigorously ahead in 1964. Real output of goods and services rose by more than 6 per cent and non-farm production by over 7 per cent. Employment increased substantially more than the labour force and unemployment was reduced. There was an unusually large rise in productivity and a considerable increase in private investment. The deficit in our current account balance of payments again declined.

The monetary policy of the Bank in 1964 helped to maintain stability in Canada's external financial position and to enable the rising demand for credit associated with the growth of the economy to be satisfied without any tightening of credit conditions. There was in fact little change in the conditions of access to credit in the course of the year; long-term interest rates were slightly lower at the end of the year than at the beginning. Private money holdings rose by 7½ per cent; including Government deposits, the total money supply rose by 6 per cent.

The rapid expansion of economic activity resulted in a strong pressure of loan demand on the chartered banks. The Bank of Canada managed the growth of the chartered banks' cash reserves in such a way that a part of the resources needed to accommodate the 15 per cent increase in bank loans was obtained through a reduction in the chartered banks' holdings of Government securities and other liquid assets. The reduction in liquidity was not such as to prevent the banks from continuing to follow strong lending policies, but it brought them to a position where their lending policies could be expected to be sensitive to any appreciable further decline in liquidity.

The stability of credit conditions in Canada in 1964 in the face of the large private demand for credit was due in important measure to the improvement of \$500 million in the budgetary position of the Government of Canada and the substantial reduction in its borrowing. Moreover, the maintenance by the Government of large cash balances during most of the year helped a great deal in the task of monetary management.

There was little change in interest rates in the United States in 1964, and although Canadian access to the capital market in that country was subject to some uncertainties while the United States Interest Equalization Tax was before Congress these did not have any major disturbing influence on credit conditions in Canada. During this period Canada received large amounts of foreign exchange from exceptional sales of grain to the Soviet Union and from inflows of capital in short-term forms. Moreover, it was generally expected that an exemption from the tax would in due course be provided for new issues of Canadian securities on the American capital market and this helped to maintain confidence in Canadian financial markets. The proclamation of the exemption in September resulted in a spurt of Canadian issues, but in the fourth quarter of the year there was a narrowing in the differentials between long-term interest rates in Canada and the United States and new placements by Canadians on the American market had fallen off by the end of the year.

Large-scale market intervention by the Bank of Canada to maintain relatively stable credit conditions was required only rarely in 1964. The principal occasion was on November 23, when the Bank of England announced an increase in its lending rate from 5 to 7 per cent. This action was taken prior to the opening of financial markets in North America and inevitably led to widespread speculation as to the nature of the response of the monetary authorities in the United States and Canada. In the Canadian market, where interest rates had been declining moderately since the summer, it was widely expected that the Federal Reserve rates would be increased, and the confidence of securities dealers and investors that current market levels in Canada could be sustained was severely shaken. Heavy selling of Government securities developed as soon as the market opened and the Bank of Canada intervened strongly to help stabilize the market and prevent an unduly sharp rise in interest rates. By 11 a.m. the Bank's purchases of Government securities amounted to \$110 million and by the end of the day it had bought \$159 million. An increase in the Federal Reserve rate from $3\frac{1}{2}$ per cent to 4 per cent was announced as the market closed, and later that evening the Bank of Canada raised its own rate from 4 per cent to $4\frac{1}{4}$ per cent. Our action was designed to eliminate uncertainty in the market by giving a clear and immediate indication of the Bank's intentions, and to indicate that the narrowing of interest rate differentials between Canada and the United States which had been taking place was in accordance with the Bank's views. Market confidence was restored to the point where prices stabilized without further Bank of Canada support, and the moderate downward trend in Canadian interest rates was soon resumed.

* * *

We are now completing the fourth successive year of economic expansion in Canada. The gains over the period have been impressive. At the end of 1964 the real output of goods and services in Canada was running at a rate nearly 25 per cent higher than early in 1961 just before the expansion began. The increase in employment has been sufficient to absorb a considerable growth in the labour force and to reduce the seasonally adjusted unemployment rate from 7.7 per cent in the first quarter of 1961 to 4.4 per cent in the last quarter of 1964 (4 per cent in December). The deficit in our international current account has been reduced from about \$1,250 million in 1960 to \$450 million in 1964; even if one excludes the exceptional sales of grain to the Soviet Union, it is noteworthy that our current account deficit has not followed its historical tendency to expand during periods of rapid economic growth. The reduction in the current account deficit has made an important contribution to our economic expansion.

In appraising the performance of the Canadian economy during the past few years we should recognize that the international economic environment has been singularly favourable to us. The economies of nearly all of our principal trading partners, including the United States, Continental Europe and Japan, have been growing rapidly. The demand for many of our export products has been very strong—in the case of wheat exceptionally so. While the international economic situation still looks reasonably favourable, some of the main countries with which we do business are in balance of payments difficulties or are concerned with the “over-heating” of their economies and have taken steps to limit the expansion of demand. This suggests that gains from external factors may be more difficult to come by than has been the case during the past few years.

We should also recall that when the current expansion began early in 1961 there was a great deal of slack in the Canadian economy. The absorption of some of this slack helped to make possible the large growth in output which we have experienced and at the same time to moderate the upward pressure on costs and prices resulting from the substantial increases in demand. The margin of unused capacity in the Canadian economy has been considerably reduced as a result of the expansion of the last few years. In certain major industries there is for practical purposes no unused capacity, and in some geographical areas shortages of certain types of labour skill have appeared. It seems clear that the absorption of the remaining amounts of unused resources in the economy will be more difficult, and that we shall have to rely to an increasing extent on improving the adaptability of our growing resources in order to avoid serious bottleneck problems and price pressures. Even in 1964, when we were absorbing slack in the economy and when unemployment averaged 4.7 per cent of the labour force, the Consumer Price Index in Canada rose by nearly 2 per cent. While it is true

that this increase was a relatively modest one by current international standards, it underlines the need to do everything we can to improve the performance of the Canadian economy in the years ahead.

Some important insights into the problems which the Canadian economy is likely to face over the balance of this decade are provided in the recently published *First Annual Review* of the Economic Council of Canada. The Council emphasizes that in the next five years Canada will experience a very rapid growth in its labour force—a growth more rapid than that of any other advanced country in the western world—and that the Canadian economy will have to grow very rapidly to provide employment opportunities for the large number of new entrants into the labour market and make the fullest use of its productive potential. It is clear that if the growth is to be sustained a special effort will have to be made to maintain price stability and to avoid balance of payments difficulties.

The mixture of economic policies most likely to achieve the kind of economic performance we want is complex and not easy to prescribe. Many things must work well at the same time. The main general instruments of public policy—fiscal policy, monetary policy and public debt management—must be used effectively. But these are by no means sufficient in themselves; indeed, excessive reliance on these general policies and the resulting neglect of the other policies that are required to encourage sustainable economic expansion has in many countries caused serious increases in prices and costs, critical problems in the balance of payments and periodic retardation of growth. In addition, therefore, to being concerned with the appropriate management of the level of over-all demand we must also be concerned with the efficiency with which our productive resources are used. The performance of the economy and our ability to attain our economic goals depend to a major degree on the levels of education and skill of our people, the flexibility and mobility of our resources, our eagerness to encourage research and apply modern technology to production, and the imagination and dynamism of our business enterprise.

In its Review, the Economic Council elaborates a particular pattern of growth which results, on the external side of the economy, in a projection involving a current account deficit in 1970 “in the order of \$1.5 billion to \$2.0 billion”. Commenting on this projection for 1970, the Council says:

“ . . . we consider a possible current account balance of payments deficit, and a corresponding net capital inflow, of this magnitude to be inappropriate as a standard of performance for the Canadian economy on a long-term, sustainable basis. In fact, we need policies, consistent with the attainment of other basic economic objectives, designed to achieve a more competitive economy, and hence a considerably lower current account deficit. Such a strengthening

of the country's international payments position would also be appropriate in relation to certain other important ends—increased maturity of Canada as an industrial nation; the avoidance of vulnerabilities implicit in continued reliance on foreign capital inflows of very sizeable dimensions for balance of payments reasons; and the maintenance of assured national and international confidence in the management of our economic affairs.”

I agree with this view. I would not regard a current account deficit of \$1.5 billion to \$2 billion in 1970 as acceptable. It is, to be sure, the case that to accommodate the expected growth of the labour force the Canadian economy will have to grow faster than the economies of the United States and most other industrial countries, and that if historical relationships were to prevail this rapid growth of output and income in Canada would be accompanied by a rapid growth of imports. If at the same time Canada's exports were to do little more than keep pace with the general growth of the markets to which they were being shipped, our current account deficit would indeed widen considerably. But in this respect the Canadian economy must do better than it has in the past. This means that we have to make continuous headway in achieving a greater penetration of export markets and in bettering our capacity to meet import competition. To improve the competitiveness of the Canadian economy we have to aim at large improvements in our productivity and at a performance in respect of price and cost stability that compares favourably with that of our principal trading partners.

A rapid increase in productivity and competitiveness requires the participation of all members of the community, and the willingness to accept the need for change and to respond to it in constructive ways. Governments must give a lead: they have to be concerned with the effects of all their policies on productivity, prices, and the country's international position. The rest of the community also has an important responsibility. Business must have the foresight, imagination and initiative to seek out and seize the opportunities that arise in a growing economy and to abandon old methods in favour of new rather than look for increased shelter for traditional methods that have ceased to be competitive. The whole community—Government, employers and employees alike—needs to recognize that the level of real income we can enjoy depends on our productivity and that the only way real incomes can be increased is through the more effective utilization of our resources. Unless we act in a way that takes full account of these facts there is danger that the efforts made to obtain the high levels of employment that we need will be frustrated by serious price instability and balance of payments difficulties.

The goals of high employment of a growing labour force, a strong external position, and price stability constitute an ambitious combination of objectives,

but in my judgment they are not irreconcilable. In the short run, to be sure, conflict may arise: it is not difficult to think of situations in which, for a time, policies that stimulate the economy may weaken its external position, or conversely of situations in which the restoration of an impaired external balance requires policies that have a short-term braking effect on the domestic economy. But looking at the matter in a longer-term perspective one finds that the broad objectives we seek can be achieved together in a sufficiently dynamic and competitive economy. In our planning for the years ahead we need not, then, lower our sights by being prepared to accept inadequate growth, or erosion of the value of money, or high current account deficits. If our economy is productive and competitive enough we can achieve all our major objectives.

* * *

In my Report last year I commented at some length on the financial relations between Canada and the United States. During the past year and a half these have been greatly influenced by the Interest Equalization Tax and the exemption for new issues of Canadian securities agreed to by the United States. It will be recalled that in the Agreement of July 21, 1963 which provided for this exemption the Canadian authorities said that "it would not be the desire or intention of Canada to increase her foreign exchange reserves through the proceeds of borrowing in the United States".

It seems appropriate to summarize the experience to date with the operation of the Agreement. Before doing so, I wish to recall the basic rationale of the Canadian exemption.

Canada has a large current account deficit with the United States which exceeds our imports of capital from that country. When all of Canada's borrowings and other imports of capital from the United States have been used to pay for our net imports of American goods and services, there remains a balance owing to the United States. This is paid for out of our net earnings from trade with other countries, out of the proceeds of our current gold production, and out of our capital imports from other countries. If the United States took steps to cut its exports of capital to Canada sharply below the level needed to finance the deficit which remained after we had used all the non-American sources of finance referred to, we would be faced with a severe loss of reserves and with the inevitable need to cut our current account deficit. Since the whole of this deficit is with the United States and about 70 per cent of our imports come from that country, the impact of whatever steps we took would necessarily fall very largely on the United States, and that country would not have succeeded in improving its payments position. This is the basic rationale of the exemption.

It follows from this rationale that the actual amount of Canadian new-issue borrowing in the United States which is "appropriate" to achieve the intentions of the Agreement as quoted above cannot be fixed in advance. The "appropriate" amount of such borrowing can only be determined when taken in conjunction with all the other transactions that enter into our balance of international payments and affect our exchange reserves. These other transactions—imports and exports of goods and services, trade in outstanding securities, bond redemptions, direct investment inflows and outflows, short-term capital flows, etc.—vary considerably both seasonally and from year to year, and so therefore will the amount of new-issue borrowing that is consistent with reasonable stability in Canada's foreign exchange reserves.

I believe that the Agreement entered into 18 months ago has accomplished what the two governments had in mind. On the one hand, the existence of the Agreement enabled Canada to avoid disruptive adjustments, including reductions of its imports, which would necessarily have followed from a sharp curtailment of capital inflow and which would have seriously affected the United States. On the other hand we have not borrowed in the United States on a scale which has resulted in an increase in our foreign exchange reserves. These have developed as follows since just before the announcement of the Interest Equalization Tax:

June 30, 1963	—	U.S. \$2,692 million
January 31, 1965	—	U.S. \$2,668 million

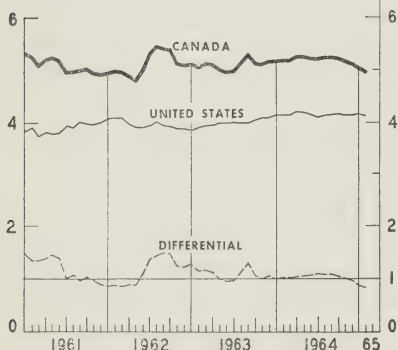
During this period, Canada paid off the indebtedness of U.S. \$276 million to the International Monetary Fund which was incurred at the time of the exchange crisis of 1962. The repayment of this obligation was a necessary use of reserves. In addition, we extended \$60 million of credit through the Fund at the time of the British drawing on the Fund last December and acquired an equivalent net creditor position in the Fund. From some points of view this creditor position can properly be regarded as an addition to our own official reserves of gold and U.S. dollars as shown above, but even taking this into account it is obvious that there has been no significant net change in Canada's foreign exchange reserves since mid-1963.

There have, of course, been some month-to-month variations in reserves. In general, they were below the June 1963 level until the autumn of 1964 when the implementation of the partial exemption from the Interest Equalization Tax was accompanied by a spurt of new Canadian issues in the New York market. This spurt of new issues was to be expected as access to the market by foreign borrowers had been uncertain for more than a year.

One of the important factors which influences the extent to which Canadians borrow in the United States is the difference between interest rate levels in the two countries. The relevant consideration is the difference in the rate of interest that the same borrower would have to pay in the two markets. There is no continuous series of quotations which provides a measure over time of the changes in

LONG-TERM GOVERNMENT BOND YIELD AVERAGES¹

Last Wednesday of Month — Per Cent



1. Average of yields on all outstanding direct issues due or callable in 10 years or more.

it had been for some years. No doubt this narrowing in the differential between interest rates in Canada and the United States was responsible in part for the falling off in new placements by Canadian borrowers in the United States capital market at the end of 1964.

In February 1965 the President of the United States sent a message to Congress outlining a programme to reduce the balance of payments deficit of the United States. This programme is aimed mainly at reducing United States capital exports to levels which are more in line with her continuing large surplus on current transactions. The programme includes some extension of the area to which the Interest Equalization Tax applies but relies heavily on the voluntary co-operation of American corporations and financial institutions to produce the desired reduction in capital outflows. Detailed implementation of the programme has not as yet been worked out; no doubt this will be done in a way that reflects the basic economic arithmetic of the payments relations between Canada and the United States outlined above.

* * *

The international payments system was severely tested in the course of 1964 by the crisis in sterling, and short-term credits granted by a number of central banks to the Bank of England played an important part in meeting the situation.

A weakness in the British balance of payments which had been developing since the latter part of 1963 gave rise to heavy exchange losses after the summer of 1964. To help the British authorities defend sterling against speculation a number of central banks, including the Bank of Canada, collaborated in placing large lines of credit at the disposal of the Bank of England in September. The Bank of England already had a U.S. \$500 million swap arrangement with the Federal Reserve System and another U.S. \$500 million in central bank credits was arranged, of which U.S. \$50 million was from the Bank of Canada and U.S. \$450 million from European central banks. In November, when speculation against sterling intensified, we again joined with other central banks in bringing massive additional short-term assistance to the British authorities: the total commitments undertaken on this occasion amounted to U.S. \$3,000 million, of which U.S. \$1,000 million was from the United States and U.S. \$200 million from the Bank of Canada.

The U.S. \$50 million credit we made available in September had been entirely availed of by November. Along with the other special central bank credits arranged in September it was repaid and lapsed in December after the British drew U.S. \$1,000 million from the International Monetary Fund. The U.S. \$200 million credit made available by the Bank of Canada in November had been drawn on to the extent of U.S. \$50 million at the end of the year. Amounts drawn bear interest based on short-term market rates.

I am pleased that Canada's circumstances were such that the Bank of Canada was able to participate in these impressive acts of international collaboration. We ourselves were the beneficiary of such co-operation at the time of our exchange crisis in 1962, when our reserve position was bolstered by short-term credits of U.S. \$250 million from the Federal Reserve System and U.S. \$100 million from the Bank of England. One of the most encouraging features of the development of the international monetary system over the past several years has been the close working relationship among central banks and their ability and willingness to provide financial support to each other in appropriate circumstances.

The central banks which have participated in these special credit arrangements are fully aware that they must be short-term in character. Their purpose

is to help allay speculation against a currency by providing the country in question with time to initiate changes in policy which will bring its international accounts back into balance and time to arrange other credits, where necessary, to cover the period until these policy changes can exert their full effect. The International Monetary Fund is the international agency for the provision of medium-term credits and in this connection has developed facilities for judging the appropriateness of the policies being followed by the borrowing country.

* * *

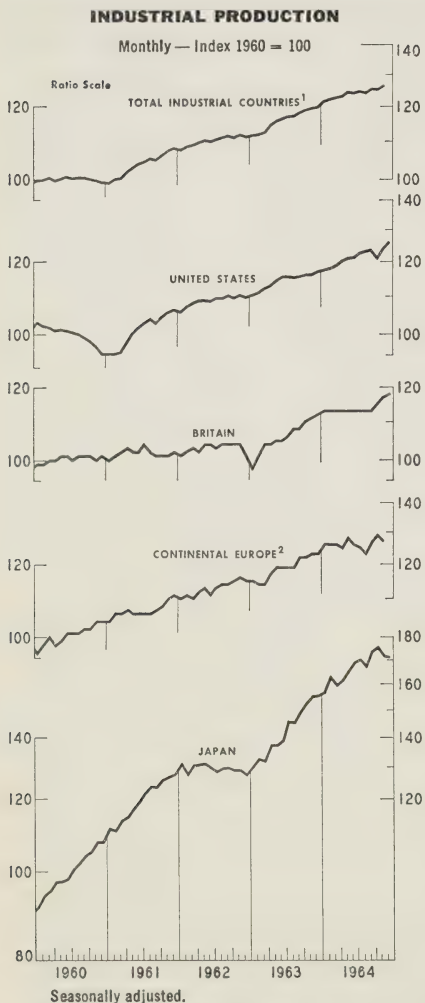
In 1964 important reports on the international monetary system and the probable future need for liquidity were made by the International Monetary Fund and by the Group of Ten, i.e., the Ministers of Finance and Central Bank Governors of the ten countries (including Canada) which participated in the 1962 arrangement to supplement the resources of the Fund. These reports did not attempt to state final conclusions regarding the future evolution of the world payments and reserve system, but they provided a valuable appraisal of the existing system and directed attention to some problems requiring additional study. Both reports conclude that there is at present no general shortage of international liquidity and that the present international payments system provides a secure foundation on which to build. They recognize, however, that in the longer run the supply of gold and foreign exchange reserves might become inadequate in relation to the needs of the expanding world economy.

In these circumstances the International Monetary Fund has been examining various techniques by which it can make a further significant contribution toward meeting any such inadequacy. As an immediate step, the Fund, acting on a resolution of its Governors passed at the Annual Meeting in Tokyo last September, has decided to recommend a general 25 per cent increase in members' quotas and special increases in the quotas of a number of countries, including Canada, whose relative economic size has increased since the last revision of quotas. This increase in the resources of the Fund will significantly strengthen the international payments system.

In addition to the important contribution being made by the Fund, there is a continuous process of international consultation in other forums regarding the operation of the international monetary system. Officers of the Bank of Canada are participating, along with those of the Department of Finance, in these discussions. I have no doubt that further improvements in the international monetary

system will continue to be made and that this will be done in an evolutionary way. We are unlikely to move at one step to a completely new system for determining the nature and amount of international liquidity nor are we likely to give up the progress we have achieved and revert to arrangements which have not worked satisfactorily in the past. Continuous attention will have to be given to the methods and conditions of supplying international liquidity, including the development in suitable amount and form of the reserve assets required to supplement gold, to ensure that the evolution of the international monetary system is orderly and appropriate. In the final analysis, of course, the satisfactory functioning of the system will continue to depend on the skill with which national authorities respond to changes in their international position by appropriate changes in their domestic policies.

The External Economic Environment



1. Weights: United States 56, Canada 4, Britain 12, Continental Europe 25, Japan 3.
2. O.E.C.D. countries.

Canada has benefited from a highly favourable external economic environment in recent years. This continued to be the case in 1964, but the situation became somewhat more mixed in the course of the year. A number of industrial countries adopted measures to moderate the expansion of demand in order to deal with serious price increases; there were renewed pressures on the international payments positions of some major primary producing countries; and Britain encountered serious foreign exchange problems. On the other hand, vigorous expansion continued to be well sustained in some important industrial economies, notably the United States, Germany and Japan.

Of particular importance to Canada, the expansion in the United States continued through its fourth year. In 1964 total output rose by 6½ per cent in value and 4¾ per cent in real terms, somewhat greater increases than in the previous year. With the exception of residential construction, which weakened after the first quarter, all the major components of final demand contributed to the expansion over the course of the year. There was less accumulation of business inventories than in 1963 and inventories were lower in relation to sales at the end of

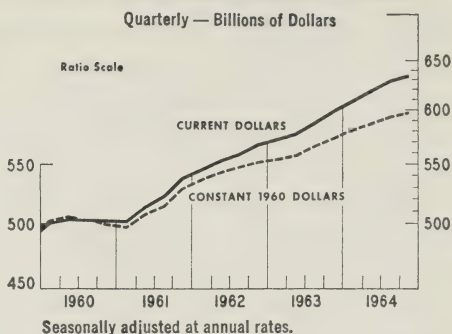
1964 than a year earlier. Employment increased by 2½ per cent during the course of the year and unemployment declined, averaging 5.0 per cent of the civilian labour force in the fourth quarter compared with 5.6 per cent in the corresponding period of 1963. Labour costs per unit of output remained virtually unchanged. The Consumer Price Index in December was 1.1 per cent higher than a year before and the general wholesale price index 0.5 per cent higher.

On the monetary side, the increase in currency and total bank deposits amounted to 8 per cent, slightly more than during 1963. After rising in the previous year, interest rates were relatively stable through most of 1964, though short-term rates rose further at the time of the increase in the Federal Reserve discount rates in November.

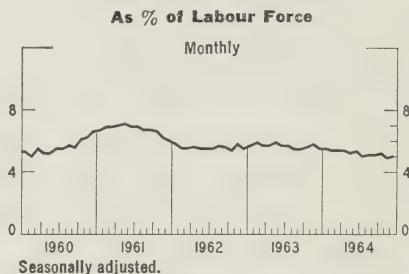
The major reductions in personal and corporate tax rates proposed by the Administration late in 1962 received final Congressional approval early in 1964. Government expenditures rose further in 1964 and the Federal Government deficit for the calendar year was substantially larger than in 1963.

The United States balance of payments situation continued to be a source of concern. Instead of improving substantially as was expected, the deficit on "regular" transactions, as financed by changes in official reserve assets⁽¹⁾ and in liquid liabilities to foreigners, and by receipts from certain special government transactions, was \$3.0 billion, only \$0.3 billion less than in 1963.⁽²⁾ On the one hand, the commercial surplus on goods and services was running at a seasonally adjusted annual rate of \$4.7 billion in the first three quarters of 1964, \$2.4 billion higher than in the previous calendar year. On the other hand, there was a greatly expanded outflow of private capital, particularly in the fourth quarter. To improve the payments position, the Administration proposed early in 1965 a prolongation and broadening of the Interest Equalization Tax, voluntary restraints on capital outflows, and a reduction in duty-free tourist allowances.

GROSS NATIONAL PRODUCT : U.S.A.



UNEMPLOYMENT : U.S.A.



⁽¹⁾ United States holdings of gold and convertible currencies and net I.M.F. position.

⁽²⁾ It should be noted, however, that if one excludes liquid liabilities to non-official foreign holders, the deficit would be \$1.3 billion, compared with \$2.3 billion in 1963.

In Britain output had been growing at an unsustainably high rate in the closing months of 1963 and some mildly restraining measures were adopted early in 1964 to moderate the expansion of demand. Private investment outlays, however, continued to rise strongly and inventory accumulation, which had increased sharply during the second half of 1963, continued at a very high level. At the same time unemployment declined further and a shortage of skilled labour emerged in some highly industrialized areas. Delivery dates for both home and overseas orders tended to lengthen. Exports stopped growing while imports rose further from the high levels already reached at the end of 1963. The balance of payments, which had been deteriorating since mid-1963, was further strained by unusually large long-term capital outflows in 1964.

The impact of these adverse developments on Britain's foreign exchange reserves was largely offset through the early months of the year by a further rise in the sterling balances held by other Sterling Area countries and by short-term capital inflows. In addition, the existence of two external lines of credit—the U.S. \$1,000 million stand-by with the International Monetary Fund and the U.S. \$500 million currency swap arrangement with the Federal Reserve System—helped to sustain confidence in sterling.

By September, however, the weak external position was being reflected in declining reserves. In an effort to counter this development and to forestall potential speculative movements, the Bank of England activated the swap arrangement with the Federal Reserve System and in addition arranged further lines of credit with seven other central banks, including the Bank of Canada. In late October the newly elected Government issued a White Paper which contained an estimate for 1964 of a balance of payments deficit on current transactions and long-term capital movements combined of £700-£800 million. A 15 per cent surcharge was imposed on all imports except foodstuffs, basic raw materials and unmanufactured tobacco, and a system of tax rebates was announced to stimulate exports; in addition proposals were outlined for longer-term measures designed to increase the competitiveness of the British economy. A special Budget introduced on November 11 raised taxes on motor fuels effective immediately; in addition a number of adjustments in the taxes and benefits associated with various social welfare arrangements were announced and notice was given of more substantive changes in taxation and expenditure to take effect in the spring of 1965.

In the next few days sterling came under increased pressure and on November 23 Bank Rate was increased from 5 per cent to 7 per cent. When it

became apparent that confidence had not been restored and that speculation against sterling was increasing, massive international assistance in the form of short-term credit facilities amounting to the equivalent of U.S. \$3,000 million was made available by a number of central banks, including the Bank of Canada, together with the Export-Import Bank in Washington and the Bank for International Settlements.

Early in December Britain utilized its stand-by with the International Monetary Fund equivalent to U.S. \$1,000 million and retired the drawings made under the September lines of credit with central banks. Towards the end of the year a "declaration of intent" was signed by the Government and representatives of business and labour with respect to the formulation of a prices and incomes policy; the machinery for implementing this policy was subsequently agreed upon and progress is being made towards setting appropriate guidelines. In announcing a three-month extension of the U.S. \$3,000 million credit facilities in February 1965, the British authorities also referred to their intention during this period to seek an appropriate drawing from the International Monetary Fund. On February 22 it was announced that the import surcharges would be reduced from 15 per cent to 10 per cent effective April 27, 1965.

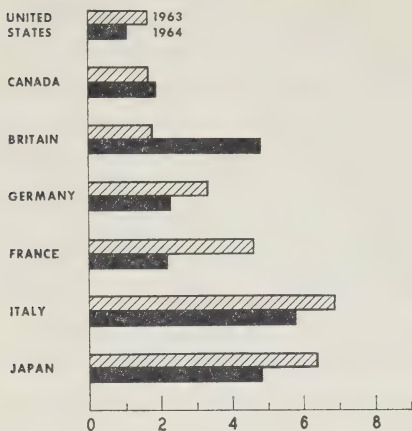
In most Continental European countries the economic scene during 1964 continued to be dominated by concern over unfavourable price and wage-cost developments, accompanied in some cases by balance of payments problems. Policies adopted to deal with these difficulties included measures to improve budgetary balances, reductions in import duties on selected items, price controls, tax rebates to stimulate exports and monetary restraints. In Italy measures were taken to contain inflationary pressures and restore the balance of payments position; there was a slowing down of output and an increase in unemployment in the course of the year. In France the comprehensive stabilization programme, which was put into effect late in 1963, was maintained in 1964 and there was a slackening in the growth of demand and output.

In Germany the momentum of expansion was well maintained, being stimulated in the early months of 1964 by exports and later by renewed strength in private investment.

The strong expansion of the Japanese economy which began in early 1963 continued throughout 1964. Various monetary measures were adopted early in the year to check a deterioration in the balance of payments, but towards year-end as the balance of payments position improved there was some relaxation of these measures.

CONSUMER PRICE INDICES

Percentage Increase : 12 Months Ending December



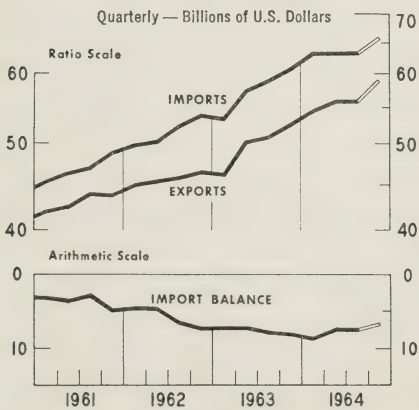
There were again marked differences in the behaviour of prices and costs among the industrial countries. In the United States, price and wage increases continued to be less than in the other main overseas industrial countries; they were also slightly less than in Canada during 1964. In Britain price and wage increases accelerated rapidly. A number of Continental European countries had a considerable measure of success in moderating increases in prices. Nevertheless, and notwithstanding increased efforts to implement incomes policies, wages continued to increase much more rapidly than productivity in most of these countries.

Price movements of internationally traded primary commodities, which had been generally upward from the latter part of 1962, became more mixed in 1964. Under the pressure of increased supplies the prices of a number of primary foodstuffs and natural fibres, notably sugar, coffee, cocoa and wool declined during the year. On the other hand, there was a strong rise in spot market prices of non-ferrous metals, occasioned by vigorous demand and uncertainties about the developing supply situation. By the end of 1964 spot

metal prices had receded somewhat from their peak levels. The more varied price behaviour in 1964 inevitably led to a greater variation in balance of payments trends among individual primary producing countries than in 1963.

TRADE OF CONTINENTAL EUROPE¹ WITH ALL COUNTRIES

Quarterly — Billions of U.S. Dollars



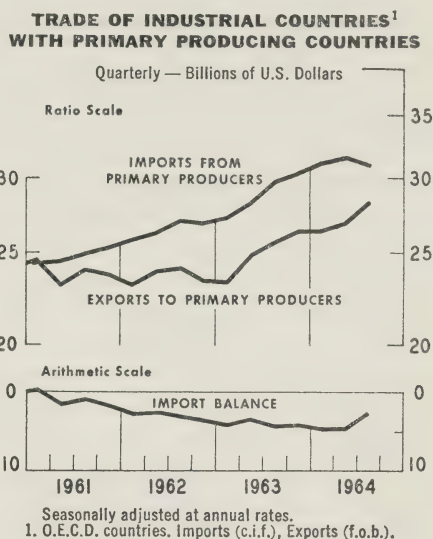
Seasonally adjusted at annual rates.

1. O.E.C.D. countries. Imports (c.i.f.), Exports (f.o.b.).

World trade grew more slowly during 1964 than during 1963. The trade balance of Continental Europe as a whole remained in deficit but the tendency of recent years for the deficit to widen was reversed as exports rose more than imports. During 1964 Italy achieved a substantial improvement in its trade balance as exports continued to rise while imports fell sharply;

France's imports and exports both stopped rising; Germany's exports, in contrast to 1963, rose only moderately and a strong upsurge in imports substantially reduced but did not eliminate the trade surplus. The United States achieved a further substantial increase in its already large commercial trade surplus while Britain's trade balance showed a marked deterioration over the year. As the inset chart shows, the tendency during the last two or three years for the industrial countries' imports from primary producing countries to rise more rapidly than their exports to these countries appears to have been reversed in the course of 1964, and after mid-year there was a pronounced adverse movement in the balance of trade of the primary producing countries.

Against the background of a moderate reduction in their deficit on merchandise trade account in 1964 and a continued large net inflow of private capital, Continental European countries' official holdings of gold and foreign exchange rose by approximately U.S. \$2 billion, about the same increase as in 1963. In addition, their net creditor position in the International Monetary Fund rose during 1964, reflecting in large measure the use of their currencies in the drawing by Britain. As previously noted, the decline in the United States reserve position, as measured by changes in official reserve assets plus changes in United States liabilities to official foreign institutions, was U.S. \$1.3 billion. During 1964 Britain's gold and foreign currency holdings fell by more than U.S. \$300 million, her indebtedness to the International Monetary Fund increased by U.S. \$1,000 million and recourse was had as well to the short-term central bank credit facilities described. The increase in the reserves of the primary producing countries which had been so prominent a feature of reserve movements over the previous two years appears to have come to an end early in 1964. Reflecting in part the more mixed pattern of commodity prices, the reserve position of certain countries, including Australia and some of the other Sterling Area countries, remained strong until mid-year, but in the second half of 1964 most of the principal primary producers experienced reserve losses. In some of these countries, including India and Pakistan, the balance of payments position had become extremely difficult by the beginning of 1965.



Economic Developments in Canada

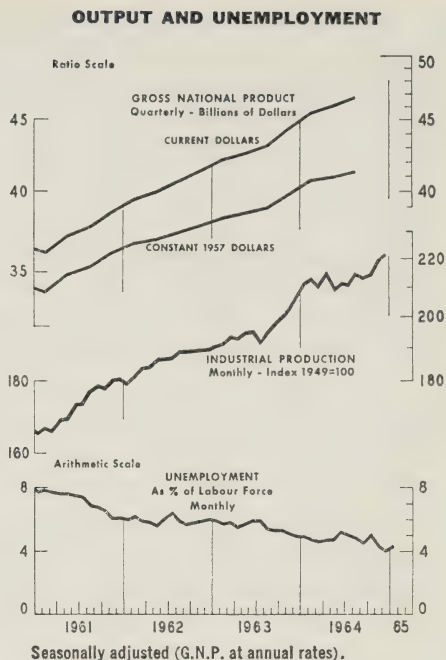
The Canadian economy achieved large gains in 1964, though the rate of expansion varied considerably from quarter to quarter. There was an unusually large year-over-year increase in productivity, a further reduction of slack in manpower and plant capacity, and a major rise in private investment. For 1964 as a whole the Gross National Product was more than 8 per cent higher in current dollars or over 6 per cent higher after allowing for price change. A reduction in western grain crops from the record 1963 level resulted in a decline in farm output, but the volume of non-agricultural production rose by more than 7 per cent. This increase, the largest in any calendar-year since 1956, was associated with a rise of 4.4 per cent in non-farm employment and a gain of between 2½ and 3 per cent in non-farm output per person employed. Total unemployment fell from 5.5 per cent of the labour force in 1963 to an average of 4.7 per cent in 1964, and at the close of the year the seasonally adjusted unemployment rate touched 4.0 per cent for the first time since the spring of 1957. Consumer prices moved up a little more than in 1963 although increases in prices and costs in Canada continued to run below those occurring in most overseas industrial countries.

In the external accounts, a strong resurgence of merchandise imports was more than offset by a combination of heavy wheat exports to the Soviet Union and one of the largest gains in non-farm exports for some years. The net result was the fifth consecutive annual reduction in the deficit on current account; the deficit was \$453 million in 1964 compared with \$557 million in 1963.

The growth of total output and spending during the course of the year was uneven. Through the winter of 1963-64, the economy advanced rapidly under the impetus provided by a number of temporary stimuli. These included the federal Government's programme of winter house-building incentives, the initial impact of the large wheat sale to the Soviet Union, heavy rebuilding of depleted automobile inventories, and anticipatory buying of investment goods in advance of the rise in some federal sales taxes on April 1, 1964. With the waning or disappearance of these special factors in the spring, there was a levelling off in industrial production, retail sales, and other sensitive indicators of economic activity. In the late summer, expansion became more rapid again. Beginning in October a series of strikes in the North American automobile industry exerted some depressing influence on production and sales. The stoppages occurred

first in the United States and led to interruptions in the flow of parts required for automobile assembly operations in Canada. Then in December a strike took place at the plants of one of the large Canadian producers. However, the effect of the automobile situation on total consumer purchasing was offset to a considerable extent by a strongly rising trend in other retail sales, and at the same time a renewed programme of winter housing incentives met with a good reception from builders.

For the year 1964 as a whole, one of the notable features of the growth in the main types of spending was the increased relative importance of business investment in plant and equipment. From the upturn of activity in early 1961 until about mid-1963, this type of expenditure had made a relatively small contribution to the economic expansion. The most dynamic sectors had been merchandise exports, consumer expenditures on automobiles, housing construction, and provincial-municipal government expenditures on goods and services. In 1964 all of these types of spending were again substantially higher—for example, unit sales of new automobiles increased by 11 per cent in spite of supply interruptions, and housing starts rose by a roughly equivalent percentage to a total of 166 thousand units, largely reflecting the continuing boom in the construction of apartments and row housing. In addition, however, business investment in plant and equipment showed its first major rise in seven years. The increase amounted to about 18 per cent in current dollars and perhaps 14 or 15 per cent in volume terms, with part of the difference accounted for by higher sales taxes. Particularly large gains occurred in the forest products, metal mining, and iron and steel industries, in a number of branches of secondary manufacturing industry including textiles and transportation equipment, in the railway industry, and in urban transit enterprises and some other utilities. Of the various forces which helped to produce these increases, two of the strongest and most pervasive appear to have been the optimism of businessmen regarding future sales levels in domestic and export markets and the growing pressure of output on the available supply of efficient plant capacity. Among other things,



the size of the 1964 investment programme appears to have reflected a considerable shrinkage in the relatively large amount of unused plant capacity which had characterized the Canadian economy for some years. As in 1963, investment in 1964 was facilitated by the continued ease of borrowing and a high level of corporate profits and internal cash flow. After-tax profits showed an increase between 1963 and 1964 of more than 10 per cent and the rise in business depreciation allowances was of roughly the same order.

Investment in non-farm business inventories also rose in 1964. The net accumulation amounted to more than \$500 million, and was both larger and more continuous than in the three preceding years. Even so, the ratio of stocks to final sales showed no significant change.

In addition to the large year-over-year gains in purchases of automobiles already noted, there was a continued steady increase in consumer expenditures on other goods and services during 1964. Total consumer expenditures were nearly 7 per cent higher than in 1963.

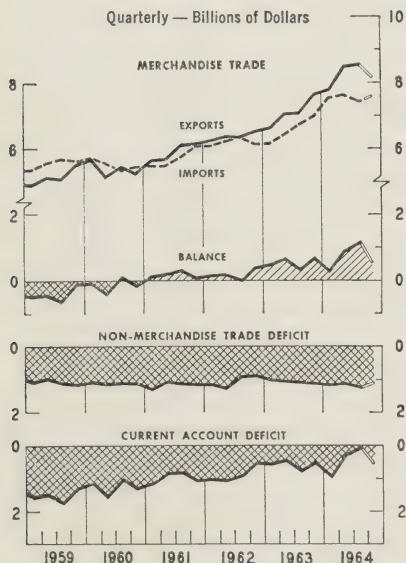
The total revenue of the federal Government grew more rapidly than its expenditure in 1964, and the Government's net position, computed on the National Accounts basis, swung by about \$600 million from a deficit in 1963 to a surplus in 1964.* The revenues of provincial and municipal governments also

rose considerably, but in their case the accompanying increase in expenditure was of much the same magnitude, and their net deficit position did not greatly change.

In the balance of international payments the current account deficit declined by \$104 million to \$453 million in 1964. The table on the facing page shows that there was an increase in the surplus on merchandise trade in 1964 of almost \$200 million. This was partly offset by a widening of nearly \$100 million in the deficit on non-merchandise transactions. The current account deficit with the United States increased by about \$475 million to more than \$1,650 million, while the surplus with other countries rose by \$580 million to \$1,200 million.

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

Quarterly — Billions of Dollars



Balance of payments basis; seasonally adjusted at annual rates.

* Details of federal Government finances are shown on page 39.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS ON CURRENT ACCOUNT

(millions of dollars)

	<u>1963</u>	<u>1964</u>
Merchandise trade: exports.....	7,082	8,238
imports.....	-6,579	-7,538
balance.....	+ 503	+ 700
Non-merchandise trade balance.....	-1,060	-1,153
Current account balance.....	- 557	- 453
of which: with the United States.....	-1,183	-1,659
with all other countries.....	+ 626	+1,206

There were unusually large annual increases in merchandise trade in 1964. On both the export and the import sides, however, the phases of faster growth had begun well back in 1963 and gave way to more irregular movements during the course of 1964.

Merchandise exports were 16 per cent higher in 1964 than in 1963. As the following table shows, exports of wheat and flour to the Soviet Union contributed substantially to the over-all increase, but other exports also rose impressively.

MERCHANDISE EXPORTS*

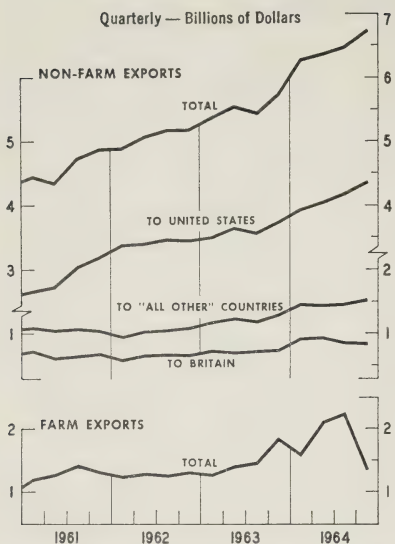
(millions of dollars)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>Change 1963 to 1964</u>
Farm exports:				
Wheat and flour to Soviet Union.....	—	192	305	+ 113
Other.....	1,270	1,305	1,513	+ 208
Non-farm exports.....	5,110	5,585	6,420	+ 835
Total.....	6,380	7,082	8,238	+1,156

*Balance of payments basis.

The increase in non-farm exports, which amounted to 15 per cent, was much the largest since 1955. As noted in the preceding section of this Report, some important overseas markets for Canadian non-farm products experienced slower economic growth in 1964, but this influence was far outweighed by several other factors, including faster expansion in the United States, strong world

MERCHANDISE EXPORTS



Trade of Canada basis; seasonally adjusted at annual rates.

demand and higher prices for a number of base metals, and further penetration of external markets by Canadian manufacturers. Exports of fully manufactured goods continued to increase very rapidly, rising by 34 per cent to a figure twice the 1961 level. At over \$1.4 billion, they accounted for 22 per cent of non-farm exports in 1964. Shipments of uranium continued to fall off, but the increase in exports of other non-ferrous metals was the largest in some years. Another notable increase was in exports of iron ore to exceptionally buoyant markets in the United States.

Merchandise imports were 15 per cent above their 1963 total. In its initial stages, the rapid rise in imports which began in early 1963 contained a large element of rebound following the lifting of the temporary import surcharges imposed

in 1962, but by the early months of 1964 it was drawing more of its strength from the faster growth of the domestic economy. Imports of industrial materials and consumer goods rose steeply. An even sharper increase occurred in imports of machinery and some other investment goods, reflecting both the particularly marked rise in this kind of domestic spending, to which reference has already been made, and its high import content. The slower growth of the economy following its winter spurt and a temporary dip in machinery and equipment spending were at least partly responsible for the levelling out in imports which became apparent in the late spring. In the fourth quarter of 1964, imports tended to be restrained by the reduced inflow of automobile parts.

The widening of the deficit on non-merchandise transactions from \$1,060 million in 1963 to \$1,153 million in 1964 largely reflected a swing back to a deficit of \$52 million in the travel account following a small surplus in 1963. Net payments of interest to non-residents continued to rise in 1964. Dividend transfers were affected by a number of unusual factors, including some large non-recurring transactions, and on balance there was a slight decline in net dividend payments.

The pattern of growth in individual industries in 1964 reflected the increases in exports and in investment outlays which have already been summarized. The output of the mining industry and the more export-oriented branches of manu-

facturing rose considerably. Strong gains were general through nearly the whole range of investment-goods industries, although in some cases there were considerable fluctuations from quarter to quarter. Growth in the construction industry was also strong but irregular. The output of steel ingots rose by 11 per cent to an annual total of just under 9 million tons, and would have gone higher had more capacity been available. Shortages of reinforcing bars and some other steel items developed during the year. Production of passenger automobiles was nearly 5 per cent greater than in 1963, despite the interruptions to output in the latter part of the year. Production of synthetic textiles, cotton goods and chemicals continued to follow strongly rising trends, and there were notable increases also in the output of pulp and paper, processed foods, and trade and transportation services.

The 1964 wheat crop of 600 million bushels, though down from the record 723 million bushels harvested in 1963, was well above the long-term average. Total farm output and accrued farm income were lower than in 1963, but farm cash income was higher. This reflected heavy cash receipts from farmers' marketings of wheat, which included large amounts grown in the previous year, and substantial final payments on 1962 crops.

After a temporary flattening out in the previous year, farm employment resumed its long-term declining trend in 1964. The rising course of non-farm employment was quite closely related to the short-term changes of pace in the economy generally, with the rate of increase subsiding in the spring and picking up later in the year. In December 1964 non-farm employment was 4.2 per cent higher than a year earlier and total employment was 2.9 per cent higher. The labour force rose much less during the same period; the increase amounted to only 1.8 per cent compared with a rise of 3.0 per cent over the preceding 12 months. The change in the growth of the labour force occurred among women, and may have reflected, at least in part, a temporary pause following the unusually large absorption of women into paid employment in the summer and autumn of 1963.



The seasonally adjusted unemployment rate declined from 4.9 per cent of the labour force at the end of 1963 to 4.6 per cent in March 1964. It subsequently rose to 5.2 per cent in June, then moved fairly steadily downward to

4.0 per cent in December. As usually happens, the main changes in unemployment took place among men, whose rate of participation in the labour force is much less closely keyed than that of women to short-term fluctuations in available job opportunities. Most of the principal age groups in the male labour force, including the particularly fast growing categories of teen-agers and men in their early twenties, showed net declines in their unemployment rates over the course of 1964. A substantial difference persisted, however, between the relatively high unemployment rate for teen-agers and the rate for adult men.

As the following table shows, the five main economic regions of Canada all shared significantly in the firming of the labour market and the decline in unemployment.

UNEMPLOYMENT BY REGIONS
(per cent of Labour Force)

<u>Years</u>	<u>Atlantic</u>	<u>Quebec</u>	<u>Ontario</u>	<u>Prairies</u>	<u>B.C.</u>	<u>Canada</u>	
1961	11.1	9.3	5.5	4.6	8.5	7.2	
1962	10.7	7.5	4.3	3.9	6.8	5.9	
1963	9.5	7.4	3.8	3.6	6.3	5.5	
1964	7.8	6.3	3.3	3.1	5.3	4.7	
<u>Fourth Quarters</u>	<u>Not Seasonally Adjusted</u>						<u>Seasonally Adjusted</u>
1963	7.5	5.9	3.1	2.8	5.8	4.5	5.1
1964	6.4	5.1	2.8	2.4	4.5	3.8	4.4

The Consumer Price Index rose by 1.9 per cent during the course of 1964, compared with an increase of 1.7 per cent over the previous twelve-month period. There was a particularly marked increase in the prices of services other than shelter, notably automobile insurance and prepaid medical care. Divergent tendencies were apparent in the retail market for foods, where the price of sugar fell sharply but where prices of vegetables and some other foods increased more than during 1963. There were further declines in the prices of consumer durable goods.

Among non-consumer goods, there were above-average increases in the prices of some investment goods, partly due to higher sales taxes. There were also considerable rises in the prices of non-ferrous metal products, reflecting developments in world commodity markets. At the same time, however, stable or even declining prices continued to be in evidence over a fairly wide range of primary and intermediate products.

PRICE INDICES

	Percent change, 12 months ending:		
	<u>Dec. 1962</u>	<u>Dec. 1963</u>	<u>Dec. 1964</u>
Consumer prices:			
Food.....	2.6	2.8	1.4
Other non-durable goods.....	0.8	1.4	1.6
Durable goods.....	-0.3	-0.6	-0.2
Shelter.....	1.8	2.0	2.6
Services other than shelter.....	2.1	2.1	5.0
Total.....	1.6	1.7	1.9
Non-farm wholesale prices.....	1.7	1.5	1.4

Wages and salaries per man-hour in manufacturing industries were a little more than 3 per cent higher on average in 1964 than in 1963. The rise in output per man-hour between the two years was also about 3 per cent, so that there was little change in average labour cost per unit of output.

OUTPUT, WAGES AND SALARIES IN MANUFACTURING

	Indices, 1961 = 100			Percent increases	
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1962/3</u>	<u>1963/4</u>
Output per man-hour.....	103.4	105.9	109.1	2.4	3.0
Wages and salaries per man-hour.....	103.2	106.2	109.7	2.9	3.3
Wages and salaries per unit of output....	99.8	100.3	100.5	0.5	0.2

A number of important collective bargaining agreements, the majority of them scheduled to run for two years or more, were signed during 1964. On average, the increases in basic wage rates provided for in such agreements were noticeably above the level of recent years.

Monetary and Financial Developments

Continued strong expansion of aggregate spending and income in Canada in 1964 was accompanied by a sharply rising demand for credit on the part of private business firms and households. There was a marked decline in government borrowing, however, and the increased demand for funds by private borrowers was met at about the same levels of domestic interest rates as in 1963. The growth in private money holdings which proved to be consistent with the maintenance of substantially unchanged credit conditions in 1964 was about 7½ per cent. Canadians drew somewhat less on the savings of non-residents than in the previous year.

Households and business firms in Canada borrowed substantially larger amounts from financial institutions and markets in 1964 than in 1963. With expenditure on new housing, automobiles and other durables rising strongly, there was an appreciably larger growth both in mortgage credit and in consumer credit than in the previous year. The expansion of business borrowing was particularly striking, and was related to sharply higher business spending on investment in plant and equipment and inventory accumulation. In total, the amount of new funds raised by private business in 1964 through net new issues of securities and borrowing from financial institutions was about \$700 million larger than in 1963.

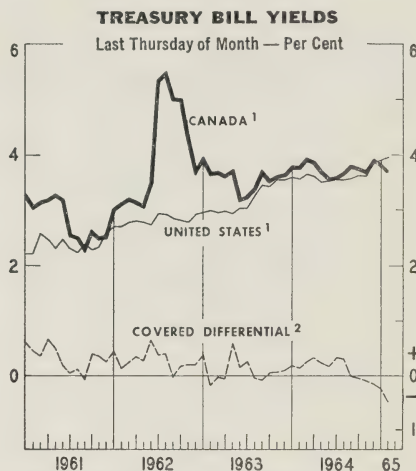
Provincial and municipal governments and their enterprises continued to expand their outlays rapidly in such fields as education, health, highways, urban transit, and hydro-electric power facilities, but their revenues were also rising strongly and their total borrowing in 1964 was somewhat less than in the previous year. The increase in the federal Government's revenues in 1964 exceeded the increase in its expenditures by about \$600 million on a National Accounts basis, so that its net demands on private savings declined correspondingly and provided an approximate offset to the increased demands of private business and households.

The relatively stable credit conditions experienced in Canada in 1964 were reflected in the behaviour of market interest rates. The 91-day treasury bill rate continued to move within a range of 3.5 to 3.9 per cent during 1964 and was at about the same level at the beginning of 1965 as it had been a year earlier. The comparable U.S. treasury bill rate moved within an even narrower range until November, when it rose sharply following the increase in the Federal Reserve

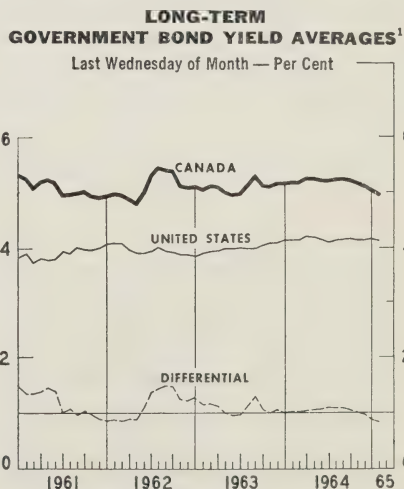
Banks' discount rate. It was appreciably higher in early 1965 than a year earlier. The consequent disappearance of the yield advantage of Canadian over U.S. treasury bills, in conjunction with a marked change in the forward rate of the U.S. dollar in Canada from a discount prior to August 1964 to a premium thereafter, made it possible for investors to obtain an appreciably higher return on short-term hedged investment in U.S. treasury bills than they could obtain on Canadian bills. There was also a reduction in the rates of return available on hedged investment in Canadian commercial and finance company paper compared with the yields obtainable on comparable U.S. paper.

Long-term Government bond yields in Canada moved within a narrow range of 5.15 to 5.25 per cent until late in the year and then declined to a level of just over 5 per cent at year-end. Comparable U.S. Government long-term bond yields moved within a range of 4.10 to 4.20 per cent and showed no decline on the year. By early 1965 the long-term interest rate spread between the two markets was as low as it had been at any time in recent years.

The assets and liabilities of Canadian financial and banking institutions continued to grow rapidly in 1964. The comparatively steady inflows of savings into life insurance companies and trustee pension plans, which in recent years have enabled them to increase their assets at annual rates of roughly 8 per cent and 13 per cent respectively, appear to have continued at substantially unchanged rates in 1964. In the twelve months ending September 1964, the assets of trust companies increased by 17 per cent, those of mortgage loan companies by 24 per cent, and those of sales finance and consumer loan companies by 20 per cent.



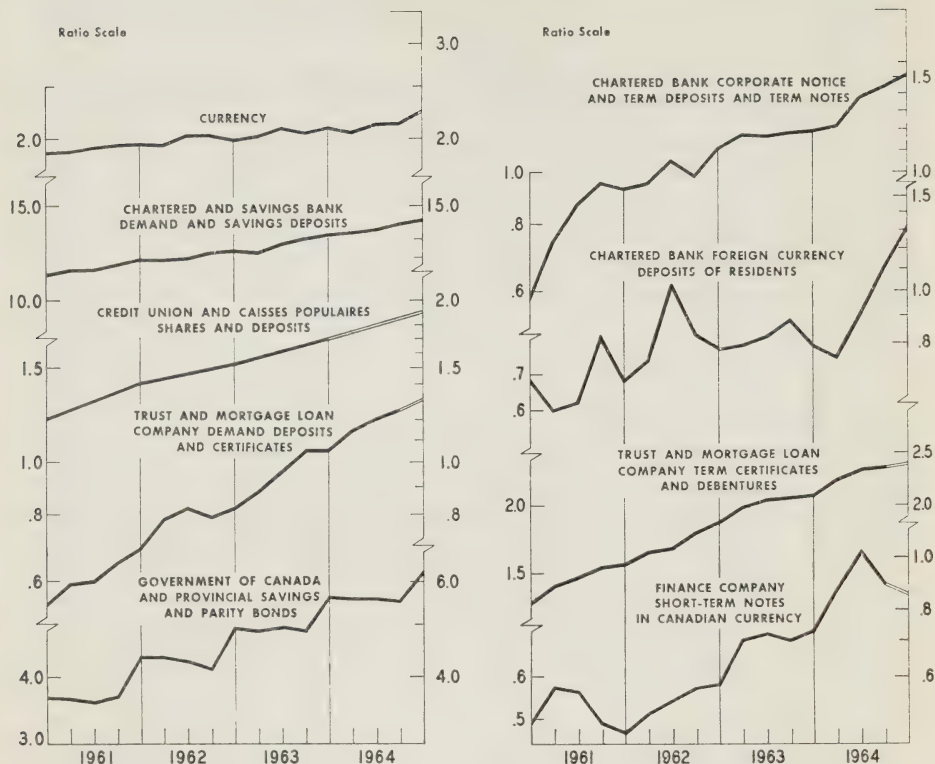
1. Thursday closing mid-market quotations; true yield calculated on a 365-day basis.
2. Yield differential adjusted to include cost of forward exchange cover.



1. Average of yields on all outstanding direct issues due or callable in 10 years or more.

GENERAL PUBLIC HOLDINGS OF CERTAIN FINANCIAL ASSETS

Billions of Dollars



The size of the savings inflows into these and other institutions in 1964 helped to ensure an ample supply of funds for mortgage lending and real estate development, business and consumer loans, and substantial acquisitions of provincial, municipal and corporate securities.

Vigorous competition among Canadian financial institutions in 1964 for term funds from corporations, institutions, and other holders of large balances was reflected in a particularly rapid increase in their liabilities to Canadians in forms such as term deposits and notes, deposit certificates and debentures. A smaller increase occurred in their demand and personal savings deposit liabilities to Canadians, which rose by 7½ per cent in 1964 as they did in 1963.

GENERAL PUBLIC HOLDINGS OF CERTAIN FINANCIAL ASSETS

(billions of dollars)

			Percentage Increase	
	End-1963	End-1964*	1963	1964
Currency, demand and savings deposits				
Currency outside banks.....	2.1	2.3		
Chartered bank demand deposits.....	4.4	4.7		
Chartered bank personal savings deposits.....	8.4	8.9		
Quebec savings bank deposits.....	0.3	0.4		
Government savings institutions' deposits.....	0.2	0.2		
Credit unions and caisses populaires shares and deposits.....	1.7	1.9		
Trust company demand deposits and certificates	0.8	1.0		
Mortgage loan company demand deposits and certificates.....	0.3	0.3		
Sub-total.....	18.3	19.7	7.6	7.6
Other financial assets				
Chartered bank corporate notice and term deposits and term notes.....	1.2	1.5		
Chartered bank foreign currency deposits of residents.....	0.8	1.3		
Finance company short-term notes in Canadian currency.....	0.7	0.9		
Trust company investment certificates.....	1.2	1.4		
Mortgage loan company debentures.....	0.8	1.0		
Canada Savings Bonds.....	5.1	5.6		
Provincial savings and parity bonds.....	0.5	0.6		
Government of Canada treasury bills.....	0.4	0.3		
Government of Canada market bonds under 3 years to maturity.....	1.8	1.4		
Total (currency, deposits and other financial assets)	30.9	33.6	8.1	8.9

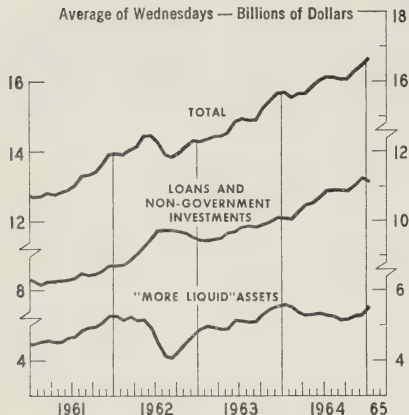
*Partly estimated.

CHARTERED BANKS. The total of the chartered banks' Canadian assets plus their net foreign assets increased by \$825 million or 5.3 per cent during 1964. Their "more liquid" assets* declined by about \$300 million. As a proportion

of total chartered bank assets they fell from 35.4 per cent in December 1963 to 31.9 per cent in December 1964, with most of the decline occurring in the first part of the year. There was no indication that this decline inhibited the banks from continuing to compete aggressively for loans during 1964, although it brought them to a position where their lending policies could be expected to be sensitive to any appreciable further decline in their liquidity. In 1964 the chartered banks' total Canadian dollar loans increased by \$1,135 million or 14 per cent, with sharp increases of 25 per cent in unsecured personal loans and 13 per cent in business loans.

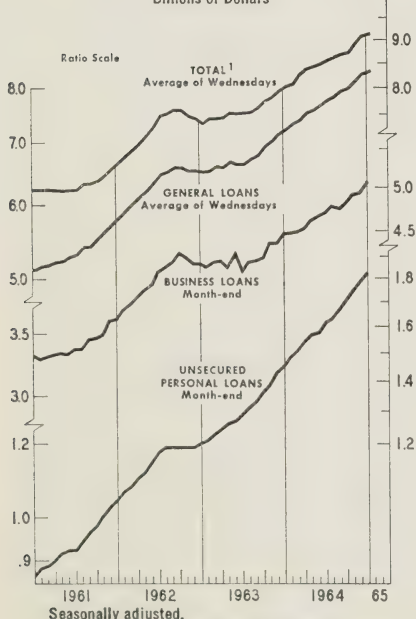
CHARTERED BANK ASSETS

Average of Wednesdays — Billions of Dollars



CHARTERED BANK LOANS

Billions of Dollars



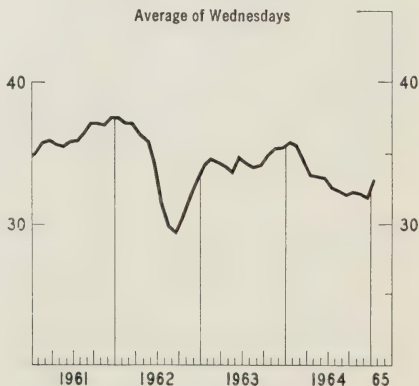
Seasonally adjusted.

1. Excludes day-to-day, call and C.S.B. loans.

* Government securities, loans to securities dealers, net foreign assets and cash reserves.

CHARTERED BANK "MORE LIQUID" ASSETS As % of Total Assets

Average of Wednesdays



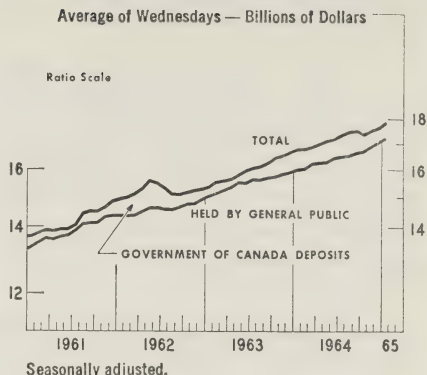
The total amount of currency outside banks and Canadian dollar chartered bank deposits increased by \$980 million, or 5.8 per cent, during 1964. Within this total, there was a decline of \$185 million in Government of Canada bank balances and an increase of \$1,165 million, or 7.3 per cent, in the general public's money holdings.

The total foreign currency assets and liabilities of the chartered banks increased sharply during 1964 and amounted to \$5.2 billion at the end of the year compared with \$4.2 billion a year earlier. There was a particularly striking growth in the banks' foreign currency business conducted with residents of Canada. Foreign currency deposits of residents increased from \$800 million at end-1963 to \$1,300 million at end-1964. During the previous year they had shown virtually no change.

The banks' foreign currency assets showed large increases in all categories other than call loans. The bulk of these assets—loans, securities and deposit balances with banks abroad—reflect the re-investment in the United States and other countries of the foreign currency balances attracted by the chartered banks. Foreign currency loans to residents of Canada on the books of Canadian branches increased by \$150 million in 1964 and amounted to \$550 million at the end of the year.

Details of chartered bank assets and of currency and chartered bank deposits are given in Appendix Tables I and II.

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS



BANK OF CANADA OPERATIONS. As 1964 opened, an acceleration of the economic expansion was occurring in Canada and the outlook for the remainder of the year seemed strong. There was much discussion of the possible need for higher interest rates in the United States depending on the course of its balance of payments and domestic economic developments. In Canada a strong expansion of chartered bank loans was continuing, and the cash reserve policy followed by the Bank of Canada resulted in this loan increase being financed in part by a reduction in chartered bank holdings of Government securities and other liquid assets. The latter had been increasing in the closing months of 1963. From the end of December 1963 to the end of March 1964 the ratio of the chartered banks' "more liquid" assets to their total assets declined from 35.4

per cent to 33.8 per cent. The treasury bill rate moved up from 3.74 per cent to 3.88 per cent, and long-term yields also rose a little in Canada, as they did in the United States.

In early April a moderate decline occurred in the U.S. treasury bill rate, while on the domestic economic front in Canada the summer months were expected to bring some slackening in the rapid pace of expansion. In view of the decline in chartered bank liquidity which had occurred earlier in the year, the Bank managed its cash reserve policy in such a way that the banks found themselves able to accommodate the continuing strong loan expansion without further reductions in the amount of their liquid asset holdings, and short-term interest rates in the Canadian market declined from early April to early June.

By mid-year it appeared that rapid economic expansion would soon be resumed and the continued rapid increase in chartered bank loans was again accompanied by some reduction in their holdings of money market assets. By mid-August the bill rate was back up to 3.82 per cent from its mid-June low point of 3.53 per cent, and the Bank took steps to keep this movement from going further than was considered desirable.

The passage of the U.S. Interest Equalization Tax Act and the proclamation of the exemption for new Canadian bond issues was accompanied by a spurt of Canadian borrowing in the New York market in late summer and early autumn which raised the possibility that excessive capital inflows might develop. While the outlook for domestic economic activity was strong, it did not seem to call for restraining action, and cash reserve management permitted the chartered banks' money market assets to rise moderately in the last quarter of 1964. There was also an appreciable narrowing of interest rate differentials between the Canadian and United States markets.

On the morning of November 23 following the overnight announcement of a 2 per cent increase in the British Bank Rate a wave of selling hit the Canadian securities market, in the expectation, correct as it turned out, of a ½ per cent increase in the Federal Reserve discount rate that afternoon. To help stabilize the market the Bank of Canada purchased securities during the day amounting in total to \$159 million. That night the Bank Rate was increased by ¼ per cent, and a statement was issued as follows:

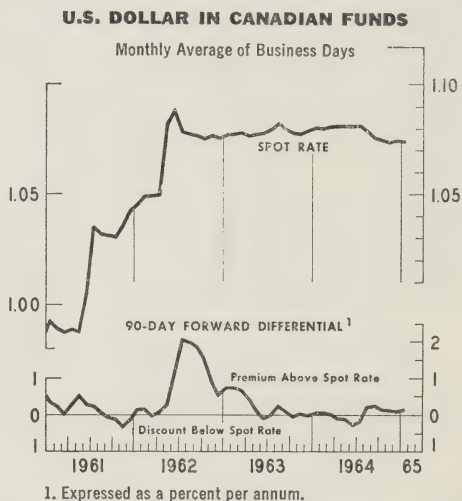
"The Bank of Canada announced tonight that the Bank Rate, which had been 4 per cent since August 1963, has been increased to 4¼ per cent effective immediately.

In announcing the change, the Governor, Mr. Louis Rasminsky, said the Bank wished to eliminate uncertainty in Canadian financial markets following changes in Bank Rates in the United Kingdom and United States and described the new rate as one which was appropriate to the needs of the domestic Canadian economy and Canada's international financial position."

Market confidence was restored following these actions and by year-end the prices of long-term Government bonds in Canada had risen to the highest levels of the year.

* * *

From September 1963 to July 1964, the period covered by the Russian wheat contract, the forward exchange rate for the U.S. dollar in Canada had tended to decline below the spot rate, an unusual rate relationship by the standards of past experience and one which reinforced any tendency for the spread between Canadian and U.S. short-term interest rates to attract capital inflows. On occasion during this period the Bank of Canada, acting as agent for the Exchange Fund, conducted operations in the swap and forward exchange market designed to provide some support for the forward rate on U.S. funds in Canada, and thus to reduce the return on hedged short-term investment inflows of U.S. funds into Canada. In August 1964 the U.S. dollar forward rate returned to a premium, and there was little intervention in the forward market thereafter.



* * *

The credit facilities made available by the Bank of Canada to the Bank of England from September onward are mentioned earlier in the Report. When the Bank of England drew on these facilities the Bank of Canada purchased United States dollars from the Exchange Fund Account and deposited them with the Bank of England. The Government used the Canadian dollars received from its sale of U.S. dollars to the Bank of Canada to purchase Government securities from the Bank for its Securities Investment Account. Thus the drawings by the Bank of England involved an increase in the Bank of Canada's holdings of foreign assets and a reduction in its holdings of Government securities, with no net effect on the cash reserves of the chartered banks.

* * *

A summary of the Bank of Canada's transactions in Government of Canada securities during 1964 is given in the table on pages 36 and 37. It will be seen that most of the Bank's net purchases from the market consisted of treasury bills and near-by bond maturities. A substantial proportion of the bonds purchased

BANK OF CANADA NET TRANSACTIONS IN GOVERNMENT SECURITIES IN 1964

(delivered basis — par values in millions of dollars)

Net purchases from (+) or net sales to (-) investment dealers and banks							
Bonds ⁽¹⁾							
Treasury bills	2 & Under	2 to 5	5 to 10	Over 10	Sub-total: bills and bonds	Securities under PRA	
Jan.....	- 16	- 27	- 13	- 2	- 1	- 59	- 45 ⁽²⁾
Feb.....	+ 47	+ 26	- 36	-	-	+ 37	-
Mar.....	+ 16	+ 21	-	+ 1	+ 9	+ 47	-
Apr.....	- 3	+ 19	-	-	-	+ 16	+ 5
May.....	- 1	+ 26	- 2	- 3	-	+ 20	- 5
June.....	+ 5	+ 36	- 10	- 6	-	+ 25	-
July.....	+ 96	+ 30	-	-	-	+ 126	+ 13
Aug.....	+ 46	+ 46	-	-	-	+ 92	- 13
Sept.....	- 12	-	-	-	-	- 12	-
Oct.....	- 22	+ 85	- 51	-	-	+ 12	-
Nov.....	+ 55	-	-	-	+ 45	+ 100	-
Dec.....	+ 15	+ 71	- 5	+ 6	-	+ 87	+ 100 ⁽²⁾
Total...	+ 226	+ 333	- 117	- 4	+ 53	+ 491	+ 55

(1) Classified by years to maturity at time of transaction.

(2) Special PRA's.

(3) These net purchases of new issues dated December 1 were offset by sales to Securities Investment Account in November and early December of the issue maturing December 15.

were acquired in exchange for issues of somewhat longer maturity supplied out of the Bank of Canada's allotment of new issues and its holdings of existing issues. The Bank's transactions in the long-term market were small in total and consisted mainly of purchases in support of the market on November 23. Large purchases of shorter-term bonds and bills also occurred at the same time, including purchases of newly issued bonds not scheduled for delivery until December. It will be noted that on balance the Bank's substantial net purchases from the market during 1964 and its net purchases of new issues from the Government were very largely offset by net sales to Government and other client accounts. The fact that the Government had relatively large cash balances available for short-term investment during 1964 was an important factor in enabling the Bank to resist substantial market disturbances without creating serious difficulties in its cash reserve management.

* * *

A technical innovation introduced in December 1963 to minimize the scale of the open market operations required to offset seasonal currency movements during December and January—namely, the use of one-month purchase and re-sale agreements with money market dealers—was developed further in December

Net transactions with Government and other accounts				
Purchases (+) of new issues less matured holdings		Net sales (-) to Securities Investment Acct.	Net sales (-) to other Govt. and client accounts	Net change in total holdings
Bills	Bonds			
- 1	-	- 40	- 37	-181
+ 22	- 30	+ 20	- 15	+ 35
+ 71	-	- 25	- 24	+ 69
+ 29	-	- 40	- 18	- 9
- 10	- 25	-	- 14	- 34
+ 5	-	-	- 23	+ 6
+ 19	+ 23	-	- 20	+160
+ 19	-	-110	- 29	- 40
+ 32	-	- 20	- 29	- 29
+ 23	- 3	- 20	- 43	- 31
+ 40	-	-100	- 19	+ 21
- 13	+113 ^(a)	-209	- 21	+ 56
<u>+237</u>	<u>+ 78</u>	<u>-544</u>	<u>-292</u>	<u>+ 25</u>

1964, when a total of \$100 million was placed by competitive tender. A related change was made in the procedure for transferring the Bank's net earnings to the account of the Receiver General: such transfers were made at various times through the last nine months of 1964 instead of in several large instalments during the month of December as in recent years.

* * *

Bank of Canada advances to banks were outstanding on fifteen business days during 1964 compared with twenty business days in 1963. The maximum amount outstanding on any one day was \$0.4 million. Excluding the special purchase and resale agreements mentioned earlier, the Bank of Canada held securities purchased from money market dealers under resale agreements on forty-nine business days in 1964 compared with thirty-seven days in the previous year. The maximum amount outstanding on any one day was \$55 million and the daily average for the year was \$2.4 million, the same as in 1963.

The assets and liabilities of the Bank of Canada at December 31, 1964, together with comparative figures for December 31, 1963, are set forth in the balance sheet at the end of this Report. Week-to-week changes in the main balance sheet items are shown in the chart on page 38.

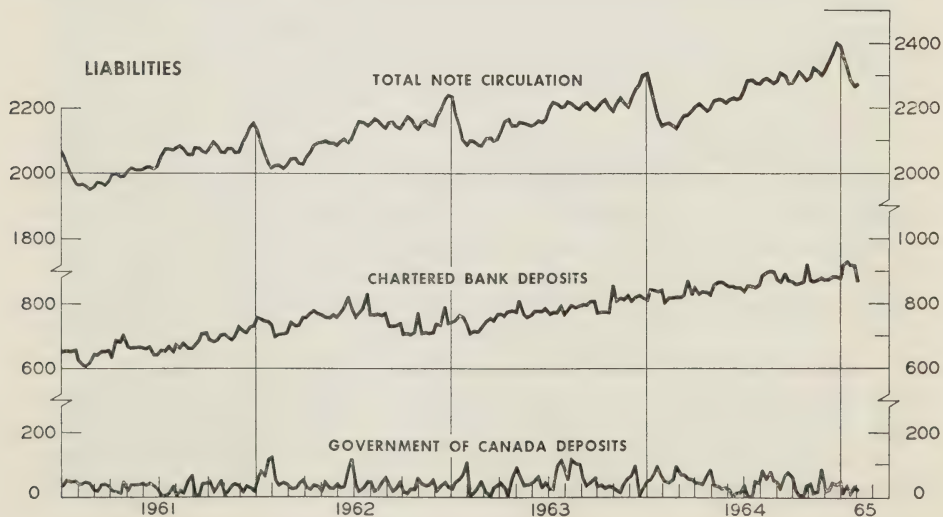
BANK OF CANADA ACCOUNTS

Wednesdays — Millions of Dollars

ASSETS



LIABILITIES



1. Breaks reflect special currency arrangements with other central banks.

2. Securities purchased from money market dealers under resale agreements.

GOVERNMENT OF CANADA FINANCE. The following table shows the Government's budgetary balance on revenue and expenditure account, the main adjustments made in deriving its balance as calculated in the National Accounts, and the changes in its financial assets and liabilities which reflect the Government's net saving or dis-saving as calculated on this basis.

GOVERNMENT OF CANADA FINANCIAL ACCOUNTS

(millions of dollars)

	Calendar 1963	Calendar 1964
Budgetary balance.....	— 633	— 153
Adjustments from budgetary to National Accounts basis: (plus sign indicates items added to budgetary revenue or deducted from expenditure, minus sign the reverse)		
Government employee pension fund contributions and interest earnings, less pension payments.....	+ 295	+ 316
Unemployment insurance and old age security fund receipts, less disbursements.....	— 142	— 47
Capital assistance to non-defence industry.....	+ 56	+ 80
Increase in corporate tax liabilities, less collections.....	+ 25	— 104
Disbursements of other government funds and agencies, less receipts under budgetary appropriations.....	+ 1	+ 109
Reserves and write-offs.....	+ 85	+ 118
All other adjustments (net).....	+ 35	+ 10
National Accounts balance.....	— 278	+ 329
Financing: uses (+) and sources (—) of funds		
Funds advanced to Government lending agencies ⁽¹⁾	+ 150	+ 325
Funds from sale of Northern Ontario Pipelines.....	— 108	—
Funds repaid or lent to International Monetary Fund.....	+ 85	+ 265
Investment of Columbia River funds in U.S. securities.....	—	+ 219
Change in accrued corporate tax liabilities less collections....	+ 25	— 104
Funds advanced to Exchange Fund.....	+ 35	+ 48
Increase (—) in direct and guaranteed debt held outside Government accounts.....	— 976	— 195
Change in Canadian dollar bank balances.....	+ 470	— 307
Change in all other assets and liabilities (net).....	+ 41	+ 78
Total.....	— 278	+ 329

(1) Central Mortgage and Housing, Export Credits Insurance and Farm Credit Corporations.

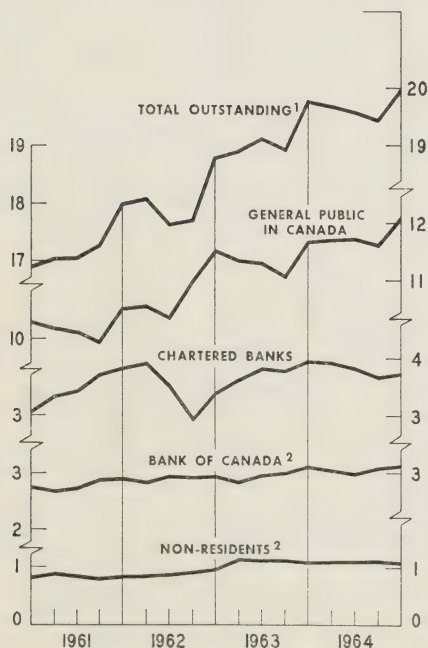
Source: Canada Gazette, "Monthly Statement of the Government's Financial Operations". Adjustments to National Accounts basis are Bank of Canada estimates.

Government of Canada direct and guaranteed securities outstanding (excluding Government account holdings) increased by only \$200 million in 1964 compared with an increase of close to \$1,000 million in the previous year. Chartered bank holdings, which had risen by \$560 million in 1963, declined by \$230 million in 1964. Holdings of the non-bank public in Canada, which had risen by \$150 million in the previous year, showed a further increase of \$410 million in 1964. The public's holdings of Canada Savings Bonds increased by \$480 million, but there was a decline of \$80 million in its treasury bill holdings and virtually no change in its holdings of market bonds.

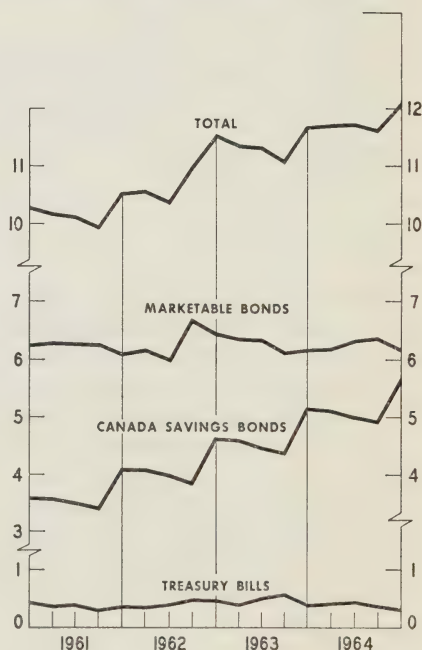
GOVERNMENT OF CANADA SECURITIES

Quarterly — Billions of Dollars

DISTRIBUTION OF HOLDINGS



GENERAL PUBLIC HOLDINGS IN CANADA



1. Excludes holdings of Government accounts.

2. Excludes the effects of security transactions involved in special currency arrangements between the Bank of Canada and other central banks.

FINANCIAL TRANSACTIONS OF CANADIANS WITH NON-RESIDENTS.

Earlier sections of this Report have commented in some detail on the behaviour of particular capital account items in our balance of payments in 1964. Details of the main items in the capital account are given in Appendix Table III. In the aggregate, the net use of non-resident savings by Canadians declined from \$557 million in 1963 to \$453 million in 1964.

Long-term capital inflows increased from \$613 million in 1963 to \$727 million in 1964. Sales of new and outstanding Canadian bonds to non-residents rose, as did retirements of maturing issues held by non-residents; the net inflow from these transactions increased by about \$70 million. There was also a smaller net repatriation of Canadian stocks. Foreign direct investment in Canada, which had been declining since 1961, was further reduced in 1964. Transactions connected with the Columbia River financing had offsetting effects on the balance of payments in 1964; the total payment by the United States authorities amounted to \$274 million but the Government of Canada invested \$220 million of this in medium-term non-marketable United States Government securities and the remainder was used by the province of British Columbia to repay outstanding U.S. debt. The net inflow of short-term capital remained unchanged at about \$90 million; sales of Canadian finance company paper to non-residents increased, but there was an offsetting accumulation by Canadian residents of foreign bank balances and other short-term funds.

Official holdings of gold and United States dollars rose by U.S. \$79 million in 1964. Canada discharged her obligation to the International Monetary Fund which had amounted to U.S. \$196 million at the beginning of the year and in December acquired a net creditor position of U.S. \$60 million with the I.M.F. through our participation in the British drawing. Of this amount, the equivalent of U.S. \$45 million came from the Fund's holdings of Canadian dollars, and the equivalent of U.S. \$15 million was Canada's contribution under the first activation of the General Arrangements to Borrow concluded in 1962 between the I.M.F. and the Group of Ten countries to supplement the resources of the Fund in case of need.

APPENDIX TABLE I

CHARTERED BANK ASSETS

(monthly average of Wednesdays — millions of dollars)

	Dec. 1964	Increase or decrease (—) during:					
		1 Q	2 Q	3 Q	4 Q	Year 1964	Year 1963
Bank of Canada notes and deposits.....	1,284	2	30	26	5	62	71
Day-to-day loans.....	216	-75	64	30	-10	9	3
Treasury bills.....	1,218	-79	18	-109	68	-102	155
Government bonds.....	2,473	72	-160	-55	-33	-177	493
Net foreign assets.....	-84	-44	-30	-45	22	-98	99
Call loans.....	149	-24	16	-17	45	20	-13
Sub-total: "more liquid" assets	5,256	-149	-62	-170	96	-286	808
Loans to provinces.....	33	-10	-5	15	-11	-11	2
Loans to municipalities.....	349	44	-44	-5	49	44	57
Loans to grain dealers.....	143	76	-18	-108	7	-44	-132
Canada Savings Bonds loans.....	208	-64	-58	-55	179	2	-3
Loans to instalment finance companies.....	274	-19	7	19	17	25	-15
General loans.....	8,204	108	546	355	109	1,118	608
(Sub-total: loans).....	(9,210)	(136)	(427)	(222)	(350)	(1,135)	(517)
Insured mortgages.....	850	-15	-12	-8	-7	-42	-15
Provincial securities.....	369	-6	-12	-11	6	-23	-8
Municipal securities.....	310	13	11	2	-4	23	33
Corporate securities.....	478	1	29	9	-21	17	11
Sub-total: "less liquid" assets	11,217	130	443	214	323	1,111	537
Total assets.....	16,473	-19	381	44	420	825	1,345
SEASONALLY ADJUSTED							
Total loans ⁽¹⁾	9,075	319	235	206	383		
General loans.....	8,271	251	277	250	350		
Business loans ⁽²⁾	5,061	62	173	125	231		

(1) Excludes day-to-day, call and C.S.B. loans.

(2) Month-end figures.

APPENDIX TABLE II

CURRENCY OUTSIDE BANKS AND CHARTERED BANK DEPOSITS

(monthly average of Wednesdays — millions of dollars)

	Dec. 1964	Increase or decrease (—) during:					
		1 Q	2 Q	3 Q	4 Q	Year 1964	Year 1963
Held by general public							
Currency outside banks							
Notes.....	1,958	—71	34	62	74	99	53
Coin.....	225	3	8	9	10	30	21
Chartered bank deposits							
Personal savings.....	8,846	284	78	255	—128	489	520
Corporate notice and term ...	1,444	19	144	10	57	229	221
Demand ⁽¹⁾⁽²⁾	4,560	—106	154	13	258	319	145
Total.....	17,033	129	418	348	271	1,166	960
Government of Canada deposits at chartered banks.....	806	—193	14	—234	226	—188	421
Total currency and chartered bank deposits ⁽²⁾	17,839	—65	432	114	497	978	1,380
SEASONALLY ADJUSTED							
Currency outside banks and chartered bank deposits ⁽²⁾							
Total.....	17,610	218	313	341	93		
Held by general public.....	17,050	324	207	198	438		

(1) Includes public demand deposits, deposits of provincial governments and deposits of foreign banks.

(2) Less Canadian dollar items in transit.

APPENDIX TABLE III

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
WITH ALL COUNTRIES

(millions of Canadian dollars)

	1963	1964	1964			
			1 Q	2 Q	3 Q	4 Q
Current account balance	-557	-453	-343	-156	215	-169
Capital account transactions						
Capital in long-term forms						
Direct investment						
foreign investment in Canada ⁽¹⁾	240	165	50	10	30	75
Canadian investment abroad ⁽¹⁾	-110	-90	-40	-45	-	-5
Canadian stocks						
net transactions.....	-229	-125	-77	-5	-5	-38
Canadian bonds						
new issues.....	952	1,036	139	307	98	492
retirements.....	-259	-312	-73	-93	-56	-90
net trade in outstandings.....	39	77	4	14	37	22
Foreign securities						
net transactions.....	23	-57	-6	-36	-5	-10
Columbia River Treaty						
receipts under Treaty.....	-	274	-	-	274	-
official holdings of special U.S.						
Government securities.....	-	-220	-	-	-220	-
Other long-term capital.....	-43	-21	-34	-36	18	31
Total capital in long-term forms.....	613	727	-37	116	171	477
Capital in short-term forms						
Non-resident holdings of Canadian assets						
Canadian commercial and finance						
company paper, etc.....	98	225	126	99	-14	14
Canadian dollar deposits and						
treasury bills.....	14	9	23	2	-53	37
Resident holdings of foreign assets						
bank balances and other short-term funds..	-255	-499	154	-125	-160	-368
Other short-term capital ⁽²⁾	233	354	35	132	-3	190
Total capital in short-term forms.....	90	89	338	108	-230	-127
Net capital movements.....	703	816	301	224	-59	350
Changes in reserves and I.M.F. position						
Official holdings of gold and foreign exchange..	60	86	-127	62	97	54
Net position with International Monetary Fund..	86	277	85	6	59	127

Source: Dominion Bureau of Statistics.

Note: A positive figure indicates an inflow of capital into Canada, and thus an increase in Canadian liabilities or a decrease in Canadian assets. A negative figure indicates the reverse.

(1) Exclusive of undistributed earnings.

(2) Includes changes in receivables and payables and a balancing item representing errors and omissions.

BANK OF CANADA STATEMENT OF INCOME AND EXPENSES

(thousands of dollars)

	<u>1964</u>	<u>1963</u>
Income		
On investments.....	\$140,126	\$127,407
All other income.....	354	444
	<hr/>	<hr/>
Total income.....	<u>\$140,480</u>	<u>\$127,851</u>
	<hr/>	<hr/>
Operating Expenses		
Salaries ⁽¹⁾	\$ 4,142	\$ 4,034
Contributions to pension and insurance funds.....	365	352
Other staff expenses ⁽²⁾	208	196
Directors' fees.....	23	22
Auditors' fees and expenses.....	75	77
Taxes (inc. municipal and business).....	904	838
RCMP guards and electric protection.....	128	125
Insurance.....	100	93
Bank notes — production and shipment.....	3,895	3,637
Premises and equipment (net).....	509	441
Stationery and printing.....	180	151
Publications ⁽³⁾	69	73
Postage and express.....	151	128
Telephones and telegrams.....	163	157
Travel and transfer expense.....	154	154
Interest paid on unclaimed balances.....	63	58
All other expenses.....	173	95
	<hr/>	<hr/>
Total operating expenses.....	\$ 11,302	\$ 10,631
	<hr/>	<hr/>
Depreciation on Buildings and Equipment	941	834
	<hr/>	<hr/>
Net Income Paid to Receiver General of Canada	128,237	116,386
	<hr/>	<hr/>
	<u>\$140,480</u>	<u>\$127,851</u>
	<hr/>	<hr/>

(1) The number of staff averaged 896 in 1964 and 893 in 1963.

(2) Includes overtime pay, medical services and cafeteria expense.

(3) Printing of Statistical Summary and Annual Report.

BANK OF CANADA • STATEMENT

ASSETS

	<u>1964</u>	<u>1963</u>
Foreign exchange		
Pounds sterling and U.S.A. dollars	\$ 97,345,863	\$ 42,163,637
Other currencies	237,058	192,717
	<hr/> 97,582,921	<hr/> 42,356,354
Cheques on other banks	190,553,152	114,983,733
Accrued interest on investments	37,135,600	34,255,603
	<hr/>	<hr/>
Investments — at amortized values		
Treasury bills of Canada	478,687,089	465,569,888
Other securities issued or guaranteed by Canada maturing within two years	349,198,716	687,994,239
Other securities issued or guaranteed by Canada not maturing within two years	2,236,452,654	1,881,661,679
Debentures issued by Industrial Development Bank	176,500,390	150,629,672
Other securities — U.S.A. Government	13,447,904	21,512,813
	<hr/> 3,254,286,753	<hr/> 3,207,368,291
Industrial Development Bank		
Total issued share capital at cost	36,000,000	33,000,000
	<hr/>	<hr/>
Bank premises		
Land, buildings and equipment		
Cost less accumulated depreciation	13,223,342	11,804,192
	<hr/>	<hr/>
Net balance of Government of Canada collections and payments in process of settlement	10,865,572	—
	<hr/>	<hr/>
Other assets	2,203,118	1,153,311
	<hr/> \$3,641,850,458	<hr/> \$3,444,921,484
	<hr/> <hr/>	<hr/> <hr/>

L. RASMINSKY, Governor
Ottawa, January 29, 1965.

A. J. NORTON, Chief Accountant

OF ASSETS AND LIABILITIES

AS AT DECEMBER 31, 1964

(with comparative figures as at December 31, 1963)

LIABILITIES

	1964	1963
Capital paid up	\$ 5,000,000	\$ 5,000,000
Res fund	25,000,000	25,000,000
Notes in circulation	2,380,559,300	2,304,643,792
Deposits		
Government of Canada.....	68,912,508	49,397,853
Chartered banks.....	882,106,056	811,410,482
Other.....	35,632,245	38,925,892
	986,650,809	899,734,227
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies		
To Government of Canada.....	38,446,788	43,271,091
To others.....	6,420,049	9,549,181
	44,866,837	52,820,272
Bank of Canada cheques outstanding	197,914,086	132,291,008
Net balance of Government of Canada collections and payments in process of settlement	—	23,764,349
Other liabilities	1,859,426	1,667,836
	\$3,641,850,458	\$3,444,921,484

Auditors' Report • We have made an examination of the statement of assets and liabilities of the Bank of Canada as at December 31, 1964 and have received all the information and explanations we have required. We report that, in our opinion, the statement correctly sets forth the position of the Bank at December 31, 1964 according to the best of our information and as shown by the books of the Bank.

T. C. KINNEAR, F.C.A.
of Price Waterhouse & Co.

H. MARCEL CARON, C.A.
of Clarkson, Gordon & Cie.

Board of Directors



L. RASMINSKY, C.B.E. OTTAWA
Governor
Member of the Executive Committee

J. R. BEATTIE OTTAWA
Deputy Governor
Member of the Executive Committee

H. BARIBEAU LEVIS, QUE.

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N. H. DeBLOIS CHARLOTTETOWN, P.E.I.

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Member of the Executive Committee

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W. S. PERLIN ST. JOHN'S, NFLD.

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EX-OFFICIO

R. B. BRYCE OTTAWA
Deputy Minister of Finance
Member of the Executive Committee

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R. W. LAWSON, *Deputy Governor*
WM. C. HOOD, *Adviser*
L. F. MUNDY, *Secretary*
A. J. NORTON, *Chief Accountant* E. METCALFE, *Auditor*

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S. V. SUGGETT, *Special Assistant*
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T. D. MACKAY, *Deputy Chief*
Public Debt Division: H. W. THOMPSON, *Chief*
H. S. HOLLOWAY, *Deputy Chief*
A. ROUSSEAU, *Assistant Chief*

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MISS H. COSTELLO, *Librarian*

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 R. MARCOTTE, *Assistant Agent*

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 J. C. FRASER, *Assistant Agent*

VANCOUVER J. C. NESBITT, *Agent*

WINNIPEG E. T. W. DAVIES, *Agent*

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